

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

CONTENTS

The Fruits of Anarchy

A Policy for the Pound

A Commonwealth Tribunal

The Honeymoon of the New Deal

An Australian View of the World Conference

Capitalism and Communism

India : Mr. Gandhi Again

Trade Prospects

Shipping Subsidies

Great Britain : The Government's Record

The Irish Free State : Ourselves Alone

Canada : Public Administration

Australia :

*Australia's Response to the Ottawa Agree-
ment—Appeals to the People—Public
Finance and the Loan Council*

South Africa :

*The Coalition—The Tax on the Gold
Premium—The Amalgamation Movement*

New Zealand

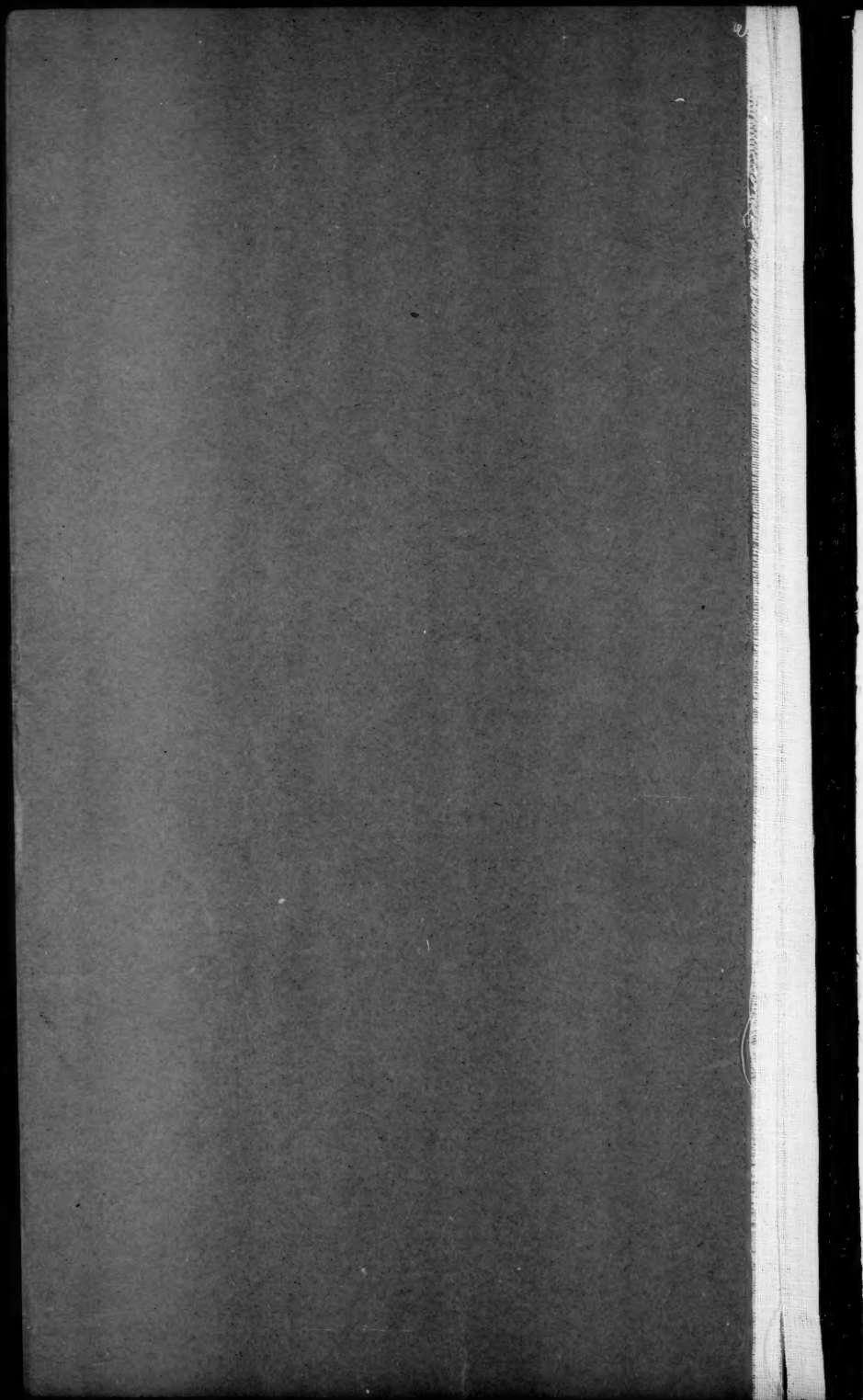
*Finance—Loan Conversion—Ottawa Obli-
gations—The Restriction Proposals*

SEPTEMBER

MCMXXXIII

NUMBER 92

Price 5/-



THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH

CONTENTS

	PAGE
The Fruits of Anarchy	717
A Policy for the Pound	722
I. <i>The World Conference.</i> II. <i>The American Experiment.</i> III. <i>A Plan for Sterling.</i> IV. <i>Currencies and Nationalism.</i>	
A Commonwealth Tribunal	742
I. <i>The Existing Judicial Machinery.</i> II. <i>A Permanent Court.</i>	
The Honeymoon of the New Deal	757
I. <i>Introductory.</i> II. <i>Schools of Economic Thought.</i> III. <i>A Planned Economy.</i> IV. <i>Nira.</i>	
An Australian View of the World Conference	771
I. <i>Introductory.</i> II. <i>The Monetary Cleavage.</i> III. <i>Restriction.</i> IV. <i>The Empire Declaration.</i> Appendix I: <i>Restriction of Production.</i> Appendix II: <i>The Empire Declaration.</i>	
Capitalism and Communism	787
I. <i>Competition and Co-operation.</i> II. <i>Communism in Russia.</i> III. <i>Capitalism in the United States.</i> IV. <i>Reasons given for the Slump in the United States.</i> V. <i>Living on Capital.</i> VI. <i>The Breakdown of Distribution.</i> VII. <i>Trade under both Systems.</i> VIII. <i>The Conflict between Individualism and Protection.</i> IX. <i>International Loans.</i> X. <i>Over-production under Capitalism.</i> XI. <i>The Strength and Weakness of Communism.</i> XII. <i>The Monetary Problem.</i>	

(Continued on next page.)

Nº 92. SEPTEMBER MCMXXXIII Price 5/-

London: MACMILLAN & CO., LTD.

Entered as second class matter March 15th, 1929, at the Post Office at Boston, Mass., under the Act of March 3rd, 1879 (Sec. 397, P.L. and R).

CONTENTS (*continued*)

	PAGE
India : Mr. Gandhi Again	807
I. <i>The Fast.</i> II. <i>The Civil Disobedience Movement.</i> III. <i>The Reactions to the Poona Pact.</i> IV. <i>The Joint Select Committee.</i>	
Trade Prospects	823
I. <i>Japanese Competition.</i> II. <i>The Internal Industrial Situation.</i>	
Shipping Subsidies	836
I. <i>The Problem.</i> II. <i>Possible Solutions.</i>	
Great Britain : The Government's Record	849
I. <i>The Break-up of the Conference.</i> II. <i>The Problems Before the Government.</i> III. <i>The Achievements of the Government.</i> IV. <i>The Position of Parties.</i>	
The Irish Free State : Ourselves Alone	866
I. <i>The Budget.</i> II. <i>National Self-Sufficiency.</i> III. <i>Republican Designs and Dissensions.</i>	
Canada : Public Administration	883
I. <i>The Civil Services.</i> II. <i>Local Administration.</i>	
Australia :	895
I. <i>Australia's Response to the Ottawa Agreement.</i> II. <i>Appeals to the People.</i> III. <i>Public Finance and the Loan Council.</i>	
South Africa :	915
I. <i>The Coalition.</i> II. <i>The Tax on the Gold Premium.</i> III. <i>The Amalgamation Movement.</i>	
New Zealand	925
I. <i>Finance.</i> II. <i>Loan Conversion.</i> III. <i>Ottawa Obligations.</i> IV. <i>The Restriction Proposals.</i>	

THE FRUITS OF ANARCHY

"If Hopes were Dupes, Fears may be Liars"

THE world is in the grip of reaction. The great international conferences which, it was hoped, were going to solve our problems have come to little. The pulse of the Disarmament Conference is beating feebly, despite Mr. Henderson's tour of the European capitals. The World Economic Conference has failed to reduce the obstructions to international trade or to make even a tentative approach to agreement upon a solution of the world's monetary problems, though it doubtless produced much mutual education and parted in an atmosphere of good-will. The Nazi régime in Germany is to all outward appearances utterly triumphant and moving daily to new prodigies of violence and brutality against any possible internal opponents. Japan is steadily consolidating her position in the Far East. The United States is rebuilding her navy, as a by-product of a gigantic economic experiment in planned recovery, the issue of which no one can foretell. The Assembly of the League of Nations will probably attract less attention this September than in any year since its inception, for at the moment public opinion is tired and sceptical of the efficacy of international gatherings.

The pessimists, therefore, have ample ground for their forebodings. The tremendous effort which has been made since 1919 to overcome international anarchy seems to be failing. Self-centred nationalism appears once more to be in the saddle. Democracy is in retreat and is giving place, not to restored dynastic autocracies, but to dictatorship by parties, which are based on class-consciousness, racialism or some other mass emotion, and are utterly ruthless and regardless of individual rights and justice in enforcing their absolute domination. If this process continues unchecked, it is only a question of time until a reckless competition both in armaments and in economic

The Fruits of Anarchy

obstruction sets in, until military alliances replace covenants for the pacific settlement of international disputes, and until a war breaks out, either in Europe or the Far East, quite as universal and far more destructive than that of 1914.

And in such a war the position of both Great Britain and the Dominions would be far less secure than it was in the last war, partly because Great Britain is now vulnerable from the air, partly because the prevailing nationalism has left the Empire much less closely knit than it used to be, and partly because the Navy no longer holds the predominant position on the sea that it used to hold when the United States was wholly isolationist, and when the Powers of both Europe and the Far East were either preoccupied with local problems or indifferent to world affairs.

Despite the lowering skies, however, we do not take the pessimistic view. It is certainly true that the wave of internationalism, which on the whole predominated during the ten years after 1918, has now been replaced by a wave of extreme nationalism. But human progress seldom moves straight towards its goal. Like a yacht, humanity is always tacking first to one side and then to the other. Yet the central problem of our time for all nations remains unchanged. Unless we can overcome international anarchy, it will be impossible for any nation to obtain lasting peace, prosperity or security in our shrinking world. The problem of dealing with international anarchy has really been long with us. But the effects of anarchy were temporarily obscured during the nineteenth century by the twin facts that Great Britain herself could almost guarantee world peace owing to her unchallenged command of the sea, and that on the whole the world was free-trade. These conditions have now disappeared through the rise of other naval Powers, through the increasing interest of almost all nations in international affairs, and through the growth of economic nationalism. We are now being forced, therefore, to realise, as never before, the inevitable consequences of

The Fruits of Anarchy

anarchy in a world which is still rapidly contracting in terms of time and space.

Try as they may, the nations will be unable to escape the consequences of anarchy, so long as anarchy remains. The more nationalist they become in armaments or economics, the more difficult become their internal problems, the more dangerous their external situation and the more urgent and frequent the necessity for international negotiation, whether by diplomacy or conference. The outward signs of anarchy, both in theory and in experience, are violence, tyranny, revolution and war, with their concomitants, poverty and the disappearance of individual liberty. These are precisely the symptoms of the present age, and they now extend throughout the world.

The present wave of anarchic nationalism, therefore, will certainly be followed sooner or later by a renewed attempt to solve the troubles that have been brought upon us by anarchy, by removing their ultimate cause. For the fundamental characteristic of civilised man is his determination and his capacity to replace chaos by order and the reign of law. The real question is the form that this renewed attempt should take. Hitherto the movement towards world order and world peace has centred round the Covenant of the League of Nations and the Kellogg Pact. These instruments attempt to induce all nations, of whatever type and stage of civilisation, to meet together regularly for the purpose of consultation about world affairs, and to use certain machinery for the pacific settlement of international disputes and the prevention of resort to war. This system, excellent as it has proved in promoting international understanding, and many as have been its practical achievements, has failed so far to give its members that security against military or economic attack, without which they will not disarm either militarily or economically and live in mutual peace and confidence with one another. And it has been this insecurity which has in large measure led to the present reaction. It may well

The Fruits of Anarchy

be that the next phase of the struggle to overcome anarchy and to deal with the problem of security will depend almost entirely on the more liberal and democratic Powers, acting within the general system of the Covenant of the League and the Kellogg Pact, and its corollary, the Stimson declaration. They at any rate are concerned with defending the ideals for which they fought in the Great War and with making effective, at any rate in their own case, those guarantees against aggression and war which these international instruments create. The attitude of the rest of the world to these ends is, for the moment, uncertain. Most of the vast area lying between the Rhine and the Pacific has, for the time being, accepted dictatorship, and can only be held to be hostile to liberalism and democracy, and lukewarm towards the methods of attacking international anarchy which have prevailed hitherto. Nobody can yet tell what the ultimate outcome of the Hitlerite revolution may be, or its effects on Continental Europe. What is clear, however, is that the prospects of any successful attack on international anarchy through the League and the Kellogg Pact, and their own security against a possible aggressive policy on the part of the dictatorships will depend upon a close co-operation of what may perhaps be called the liberal Powers. What is equally clear is that Great Britain should firmly resist all suggestions for further entanglement in the internal affairs of Europe. We shall get nowhere by trying to form part of a new European Balance of Powers. The basis of British policy must remain the Covenant and the Kellogg Pact. They are the true foundation for the attack on international anarchy, and therefore for obtaining a tolerable world in which to live. They are equally the foundation for the unity of the British Commonwealth and for Anglo-American relations.

It is a curious fact, not always realised, that it is the Covenant of the League of Nations, rather than any agreement about foreign policy, which has largely dispelled

The Fruits of Anarchy

the old problem of how the nations of the British Commonwealth are to deal with the question of war and peace when it arise. Under the Covenant, and to a less extent the Kellogg Pact, the Dominions and Great Britain approach every threat of war in any part of the globe bound, in association with other members of the League, to adopt the same procedure, and to accept the same general obligation under Articles 10, 11, 15 and 16 of the Covenant, in dealing with it. They may differ in their interpretation of these Articles and of the procedure to be followed thereafter, but in the early stage of an international crisis, at any rate, the Covenant has removed the old dilemma between belligerency and secession, just as the old problem of neutrality and of the freedom of the seas has largely disappeared for the United States under the Kellogg Pact.

It is obvious that this autumn a new stock-taking of our position and policy will have to begin, both on its political and economic side, in the light of the tremendous events of the last twelve months. That stock-taking, we are convinced, will lead once more to the fundamental conclusion that international anarchy is the root of our troubles, and that a return to nationalism in foreign policy, armaments or economics can not only not solve our problems but must inevitably intensify them. Indeed, there are many who are beginning to doubt whether international co-operation in any form can ever end the evils of anarchy, and to wonder whether the answer to the present reaction is not to face boldly the fact that, both in theory and in experience, the only way of ending war is the pooling of sovereignty, in the creation of a common government for common purposes. That, however, is a question which raises issues too large to be susceptible of treatment in an article of this kind. We may, however, return to it in the future.

A POLICY FOR THE POUND

I. THE WORLD CONFERENCE

LET us weep no futile tears beside the deserted grave of the World Economic Conference in the cemetery of vain hopes ; but, since an autopsy may yield scientific information, let us investigate briefly the manner of its puny life and the circumstances of its untimely death. In May, 1932, conversations between the British Ambassador at Washington and the State Department resulted in general agreement that a world conference on monetary problems should be called in London. The statesmen who drew up the Final Act of the Lausanne Conference, comfortable in the feeling that they had settled one economic problem, were thus led to believe that the United States would join them in settling the rest. They planned a world-wide investigation into the causes of the depression and the international remedies required. The indirect association of the proposal with the issue of reparations and war debts, and the high-protectionism of the American Administration, at first rendered the expected co-operation rather luke-warm. Later, however, the election of Mr. Roosevelt, the simultaneous success of a party whose express policy was to conclude reciprocal engagements for the reduction of tariffs, and the generally favourable outcome of the Roosevelt-MacDonald and Roosevelt-Herriot talks, restored the hope that America would be able to join Europe and the rest of the world in a whole-hearted common endeavour to end the depression. In a broadcast message to the world on May 16, Mr. Roosevelt said :

The World Economic Conference . . . must establish order in place of the present chaos by the stabilisation of currencies, the freeing of the flow of world trade, and international action to raise price levels. It must supplement individual domestic programmes for economic recovery by wise, considered international action.

The problems mentioned by the President had been

The World Conference

considered by a preparatory commission of experts, who drew up an annotated agenda to which the participating Governments presumably gave careful study. Yet it was apparent that no plan of campaign or coherent and ordered set of policies to be promoted at the Conference had been thought out by either the preparatory commission, the British Government who were acting as hosts, or any other leading Government. This obvious lack of plan was the principal cause of the widespread public scepticism that attended the opening of the Conference. Opinion was generally agreed, however, that the two great tasks were the liberation of international trade and the raising of the general price level ; and that currency stabilisation (at least of an experimental kind), being demanded as a condition of the former, was incidental to the latter also. The belief that this was not incompatible with the official American view was encouraged by Senator Pittman's submission of a resolution which began with the following words :

That it is in the interests of all concerned that stability in the international monetary field be attained as quickly as practicable ;

That gold should be re-established as the international measure of exchange values.

The false foundation of these hopes was soon to be exposed. It was false because the universal agreement as to the ultimate goal masked a basic difference of opinion as to the order of immediate measures. Must currency stabilisation precede (as the French insisted) the reduction of tariff barriers, or (as British Ministers declared) could the restoration of the gold standard be contemplated only when world trade had been liberated ? Indeed, was even temporary stabilisation consonant with a domestic programme of raising prices which was already under way ? Was the view of most of the debtor States of Europe, that international debts must be readjusted so as to clear the decks for economic recovery and a rise of prices, sounder than the view of the British Dominions and India, that a

A Policy for the Pound

rise of prices was the only possible and complete solution of the debt problem? Above all, was international co-operation in the economic sphere to be regarded as a condition of, or an addendum to, domestic efforts towards recovery?

The growing nationalism of American policy had all along caused uneasiness, which the reaction of United States opinion to the war debt compromise did nothing to allay. There was, indeed, no settlement of that problem, only a procrastinatory agreement by the President to wink at Great Britain's partial default, and an unforgiven repetition of complete default by France and certain other debtors. On or before December 15, we shall have to face the issue all over again. The turning point of the Conference, however, proved to be President Roosevelt's refusal to endorse the agreement upon the experimental stabilisation of the pound, the dollar and the franc, which had been reached by representatives of the central banks. This was followed by an announcement by the American delegation to the effect that their Government regarded temporary stabilisation as untimely,

because the American Government feels that its efforts to raise prices are the most important contribution it can make, and that anything that would interfere with those efforts and possibly cause a violent price recession would harm the Conference more than the lack of an immediate agreement for temporary stabilisation.

A compromise resolution was then devised, based almost word for word on the Pittman proposal and adding only a general undertaking by the signatories to limit exchange speculation. It was met by a tartly worded rejoinder from the President, reproving his interlocutors for "a singular lack of proportion and a failure to remember the larger purposes for which the Economic Conference originally was called together."

In face of insistence by the gold standard countries that nothing useful could be done without some assurance of

The World Conference

exchange stability, the Conference was kept in being for another three weeks by the votes of the "sterling bloc," allied with the United States and a number of oversea debtor countries. But the remainder of its activities—with the chief exceptions of an agreement on silver and the efforts of the British Government to promote its programme of restricting the production of primary products—were mainly a process of winding-up. The most notable incident was a blunt attack on the policy of public works, as an international or even as a national expedient for economic recovery, by the President of the Board of Trade—an attack which was more than half repudiated by the Prime Minister in his final speech to the Conference. The positive achievements of the Conference do not make a very imposing list.

1. An agreement on the international sale of silver, between the chief holders and the chief producers thereof.

2. Steps (not amounting to accepted plans) towards the regulation of the production or export of certain commodities.

3. A valuable understanding on the future working of the gold standard, based on the vital principle that gold reserves exist not to meet internal drains but to make up temporary deficits in the international balance of payments, and including a suggestion that 25 per cent. is a proper minimum reserve ratio.

4. A resolution on international indebtedness which contains no practical plan save the universal formation of creditors' organisations.

On the broad and fundamental question of the best policy for securing a reduction of tariffs no general agreement was attained. There was a sharp division of opinion between those who, like the British Government, pin their faith to the most-favoured-nation clause, and those who would like to modify the application of the clause, so as to allow the formation of groups within which tariffs would be mutually reduced, possibly on the lines of the Belgo-Dutch Convention.

It may, from some points of view, be reckoned an achievement of the Conference that it laid bare the basic division

A Policy for the Pound

of policy between three broad monetary groups. First, there were the gold standard countries and those debtor States which had secured, by exchange restriction and like devices, an artificial external stability of their currencies against gold. The second group comprised the United States and such countries as follow in its train; and the third, Great Britain, the Dominions, and the other members of a rather nebulous sterling bloc. The attitude of the gold group is dominated by fear of uncontrollable inflation (such as many of its members have already experienced), and of a general collapse of the credit system. To them, either external or internal depreciation of their currencies is a fearful danger signal. These feelings are reinforced, in France at least, by the existence of a very diffuse and politically powerful creditor class having an adverse interest in a rise in prices. All of them adopt the argument that in a regime of fluctuating currency ratios it is impossible to stabilise tariffs or to sacrifice any other weapon of economic defence.

The American attitude is of course dominated by immediate circumstances. Bullish expectations, based on the general recovery programme, drove up commodity prices, and this naturally had a depressing effect on the exchanges. At the same time, the powers given to the President to devalue the dollar, and his refusal to endorse the bankers' stabilisation plans, caused speculators to gamble on a fall in the value of the dollar on a limited market. The resultant depreciation of the exchange, in turn, enhanced the internal prices of commodities commanding a world market. Hence, both in reality, and—what is more important—in the minds of the public, a two-way connection was established between the falling exchange and rising prices. The Administration, having staked everything on a rise in prices, was ready to sacrifice any hindrance—exchange stabilisation or a liberal tariff policy.

The attitude of Great Britain is harder to define. Over and over again—not least emphatically in the joint declara-

The American Experiment

tion of policy issued by the delegations of the Dominions and the United Kingdom at the end of the Conference*—the Government has asserted that to secure a rise of prices is its leading aim, and that without such a rise we cannot fix the pound in relation to gold. This would seem to agree precisely with American policy. Yet, apart from the maintenance of cheap money, and the attempt to restrict the production of certain articles, the Government has not done anything towards carrying out its own avowed policy. In fact, the pound has been kept for several months at a fixed figure in relation to gold. Our inaction made the remainder of the sterling bloc very restive, though they warmly welcomed the vitally important joint declaration of British policy which has been mentioned above. The signatory delegations considered "that the Governments of the British Commonwealth should persist by all means in their power, whether monetary or economic, within the limits of sound finance in the policy of furthering the rise in wholesale prices until there is evidence that equilibrium has been re-established."

II. THE AMERICAN EXPERIMENT

THE development of the American situation thus exerted a critical influence on the fate of the World Economic Conference. Enough has been recorded to prove that, although the successive restatements of American policy may have been verbally compatible with one another, they changed so much in emphasis within the space of a few weeks that European statesmen naturally felt both disappointed and aggrieved. During the two months that followed the Roosevelt-MacDonald conversations, indeed, important changes had occurred in the United States. Though the President's personal popularity was in no way dimmed, Congress was beginning to resent his autocratic mode of government, and caused him

* See page 783.

A Policy for the Pound

some difficulty in securing the passage of his budgetary reforms before the adjournment. Hence, lacking the assured Congressional support which an overwhelming party victory might have been expected to give him, Mr. Roosevelt dared not adopt any policy running counter to the prejudice of the masses of the population, and was forced to court the dangers of excess rather than prejudice the evidence of seeming achievement. That evidence, indeed, had become very obvious. The Administration's policy of economic recovery promised to the farming community such a rise of primary prices as would make tolerable the burden of debts, leaving a good margin of profit besides; and to the industrial and business community an increase of turnover involving the reduction of unemployment, the renewal of profits and an advancing stock market. Every one of these aims was being partially achieved by the end of June.

The powers which the President took in the Farm and Industrial Recovery Acts were enormous. Provision was made for the almost unlimited expansion of the currency, and for its possible devaluation by 50 per cent. against gold. As much as \$3,300 million (nearly £700 million at par) was appropriated for public works. Farm mortgages were to be taken over wholesale by the State. A "guaranteed price," corresponding to the average level of 1909-14, was to be secured for a long list of agricultural products, by means of taxes on consumption and a reduction of output. The Industrial Recovery Act enabled the Administration to impose on any industry, or upon industry as a whole, codes of wages, hours and conditions of labour, and of prices, too, by the ostensible means of agreement and persuasion, which thinly hid the mailed fist of ultimate compulsion. The rise of prices and the industrial improvement that took place during the first five months of the President's rule might well be taken to prove the efficacy of these gigantic weapons. Strangely, however, not one of them had yet been effectively used. The currency

The American Experiment

circulation was not expanding. Quite trivial sums had been spent on public works. The restriction of the supply of wheat and other primary commodities could not be expected to take effect until another crop-year was past. The industrial codes remained a threat, or a promise. What, then, had happened?

To begin with, there were certain fortuitous circumstances, like prospects of a poor world wheat crop, which would have helped in any case to procure a rise of prices. Next, the violent purge which the banking system underwent in March renewed the confidence of the public in the credit system and released much of the currency that had been hoarded during the preceding three years. A later factor has already been mentioned, namely, the speculative depreciation of the exchange with its inflationary effect on the prices of goods commanding a world market. But the most important consideration of all was the public knowledge that the Administration meant business, and the public belief that the measures taken to raise prices would eventually be successful. There was a rush to get in on the ground floor. The process (typical of the downward phase of a business cycle) of throwing back the burden of holding stocks from the consumers' to the producers' end of the commercial chain was sharply reversed. Manufacturers made haste to augment their production, even without the prospect of an immediate market, lest increases of wages and of raw material costs should destroy their opportunity.

There was only one threat to the spiral process of rising prices. Statistics of retail trade suggested that consumers' purchasing power was not keeping pace with the expansion of prices, and that unless it was stimulated the speculative bubble might burst and trade recede to a lower level even than before. Hence the Administration hurried on its public works policy (\$1,000 million had been provisionally allotted by the end of July), and put into immediate operation a "blanket code" enjoining minimum wages and

A Policy for the Pound

conditions of labour upon the whole of industry, subject to adjustment for individual industries when the latter should have put forward schemes agreeable to the Administration. The world will watch with eager interest the progress of this experiment in raising prices by raising wages—the boldest measure of socialism yet attempted in Western countries. To raise wages is to raise costs and to cut still further into profits. But to raise wages is also to raise consumers' purchasing power, to expand the turnover of trade and industry, and thus to restore profits once more. The success of the American plan is, therefore, conditional upon three things. If, in anticipation of rising costs, manufacturers immediately inflate their output, only to cut down again when the code comes into full operation, they will defeat the whole purpose of the plan. On the contrary, they must believe with conviction in the plan's eventual success, and thus be ready (with their bankers' co-operation) to submit to lower profits or greater deficits during the interval between the increase of wages and its emergence in expanding demand. Finally, the higher wages must not be lost, in any significant degree, in the thirsty quicksands of debt repayment, for to that extent they will not immediately reappear as purchasing power. Beyond these theoretical considerations prophecy is impossible.

The success or failure of particular measures taken under the Farm Act or the Industrial Recovery Act will doubtless have a profound influence on policy in this country ; but, besides, from two points of view we have a general interest in the progress of price-raising in America. Were that experiment to fail, we, with the rest of the world, would be farther away than ever from the promised escape from the slump. Though we may adopt more conservative policies, the American aim of raising prices to a level which will give normal profits to the primary producer is ours also, and if they fail we must fail too, so great would be the shock to the world's economic structure. It follows

A Plan for Sterling

that anything we do which might undermine the success of the American experiment is to our own grave disadvantage. Second, the course of American prices and the sterling value of the dollar are intimately connected. An *expectation* of rising prices causes an *expectation* of a fall in the exchange, which itself causes an *actual* fall beyond the rate justified by the *actual* level of prices. This is what has happened in the United States. Commentators like Mr. Lippmann claim that the dollar is not undervalued, but, in basing their argument on the most sensitive indices of wholesale prices of raw and semi-manufactured commodities, they make the same mistake as was made in 1925 by those who justified our return to the gold standard by reference to wholesale price indices instead of to indices of wages and retail prices. We have already noted how retail turnover has lagged behind rising commodity prices in the United States, and the lag between the exchange rate and internal prices, which is illustrated in the following table, is of the same fundamental character.

RATIO OF DOLLAR TO STERLING PRICES

(1932 average=100)

	Jan.	Feb.	Mar.	April	May	June
Wholesale Price Ratio	95.2	94.6	96.5	97.2	98.7	100.0
Retail Price Ratio ..	96.2	95.4	96.4	96.8	97.6	97.1
Exchange Rate ..	95.9	97.7	98.0	102.1	112.2	118.0

The dollar is undervalued, and it would, therefore, be as dangerous for us permanently to link the pound to the dollar at the present exchange rates as to link the pound to gold at the present level of prices.

III. A PLAN FOR STERLING

EVER since we left the gold standard in September, 1931, British monetary policy has been guided by two aims which at times have been conflicting—a rise of prices and exchange stability. The departure of the United States from the gold standard in April last added a new

A Policy for the Pound

element to the problem, for if the dollar was to fluctuate in gold value the pound could not be simultaneously stable against gold and against the dollar. At the opening of the World Economic Conference we hoped to do away with that complication and to reconcile our two aims by securing experimental stabilisation between the pound, the dollar and the franc (with all the other currencies that move in their respective trains), as the basis of a programme of tariff reduction and the raising of prices throughout the world. When these hopes were dashed by the American refusal to stabilise, the problem of combining our two aims was restored in all its complexity.

Exchange stability is an important element in the confidence on which international trade must be founded, and the key to the general liberation of trade by the removal at least of emergency restrictions. Our interest in it as a great trading nation is augmented by our position as the leading financial market of the world. If, however, it does not include the dollar it is not a practical policy for us. Were the pound attached to the gold currencies at something like the present levels, we could not face the immediate consequences in competitive trade of a possible future low devaluation of the dollar in terms of gold. That would depend, it may be argued, on the relative price levels of Great Britain, the United States, and the gold countries; but present circumstances indicate with considerable certainty that the revaluation of the dollar would be an under-valuation, comparable with the under-valuation of the franc in 1928. At all events, our hands must be free.

Moreover, a rise of prices emphatically is and must remain a cardinal principle of our policy. The excessive burden of fixed money charges, which with every fall of prices take an increased share of the total product of industry and trade and thus leave an ever declining margin for profits, is a primary cause of continued depression. The present debt structure, indeed, may collapse—

A Plan for Sterling

perhaps to the accompaniment of political and social revolutions—unless it is relieved either by general cuts in service-charges or by a rise of prices. The former alternative is not only extremely difficult in practice, especially for a country with an advanced and complicated credit system like our own; it threatens the whole foundation of credit, the confidence of the lender coupled with the responsibility of the borrower. The rise in prices required to make the existing debt structure altogether tolerable, it may be argued, is impracticably large. That is true; and it is true moreover that a rise in prices, if too rapid or too prolonged, creates as inequitable a redistribution of real income as does a sudden fall. But a moderate and controlled rise of prices, which would avoid the latter evil, would effect at least a partial solution of the debt problem. It would, furthermore, make possible those conditions of freely moving trade under which alone a complete solution can be evolved.

A fall of prices strikes most sharply at debtor countries, and at primary producers, like the Dominions; but it swiftly recoils upon manufacturing creditor countries like ourselves, through the impoverishment of our markets and the frequent failure of our debtors to pay their debts. A rentier dependent on interest from abroad may be a drone, but his income, as purchasing power, creates as much employment as do wages or salaries. Hence the criticism of our failure to implement our expressed aim of raising prices, which are offered by an overseas contributor in a later article* (especially our reliance on the restriction of production, which may raise the prices of individual commodities but can only have a depressing effect on the general range of commodity values) could be levied with equal cogency from a selfish national point of view. This is not to deny that restriction of output may be required as part of the technical reorganisation of certain manufacturing industries.

* See p. 777.

A Policy for the Pound

Prices, indeed, are rising—slowly—and trade is expanding. Cheap money has had some effect. This might be taken, as it seems to be taken by the Government, as a reason for sitting back and doing nothing, whereas on the contrary it is our opportunity for striking out on an independent policy. Attachment to gold, which has been maintained in practice for the past six months, was valuable as a basis of commercial security so long as the dollar had a more or less fixed relation to gold. Now, however, with the dollar at liberty and American prices rising, the attachment to gold is bound to prove a brake on our progress. For there is no disguising the fact that the gold standard countries are far from enthusiastic about a rise of prices. Sooner or later, if we are to implement our avowed price policy, our path and theirs must diverge. A large or sudden depreciation of the exchange against gold is not required, but every day by which *de facto* stabilisation is prolonged enhances the difficulty of eventually depreciating should our price policy demand it.

The vital point is not that a deliberate depreciation of the exchange would automatically enhance the sterling prices of commodities entering into international trade, for that might be a temporary, and would certainly be only a partial, alleviation. What is wanted is a spontaneous heightening of prices within the sterling area brought about through a more rapid flow of purchasing power. Now, apart from budgetary deficits, which undo their direct inflationary effect by the deflationary consequences of the loss of public confidence, there are two ways by which internal purchasing power can be increased. One is the way of the American experiment in wage inflation, which requires two conditions, neither of which we possess—a popular Government with dictatorial powers, and a persistent and enthusiastic confidence, on the part of the enterprising class, in the efficacy of that Government's programme. The other way is an increase of real investment, in the form either of the creation of new

A Plan for Sterling

capital goods or of the purchase of commodities for stock.

Cheap money is having its slow and mild effect in encouraging private investment; but more than that is required. A moderate policy of public works is called for, not as a direct means of absorbing unemployment, but as part of an acknowledged programme of price-raising. There are three ways of looking at a policy of public works: first, its capacity to afford increased employment, both directly and in the manufacture of the raw materials required; second, the value of the works to the community, which may be much higher than the monetary return, and which in any case must take account of any saving of unemployment benefit; third, the new purchasing power involved, which is multiplied by being passed on from spender to spender. Though they may be expensive according to the first test, there are many opportunities for public works which come well enough out of the second to justify their experimental submission to the test of their effect in stimulating purchasing power.

Such governmental intervention may be necessary in order to start the upward spiral, but the process must be strengthened and maintained by more normal forces of investment. Investment in capital works, and more particularly in commodities, would be stimulated by belief in the probability of a rise of prices, based on the obvious detachment of sterling from gold. The pegging of the sterling-franc exchange is seriously detrimental to that necessary faith. One of its results has been the inflow of a large volume of short-term funds seeking a safe refuge, and this is bad money, prejudicial to our commercial interests, because it may be violently withdrawn. Further depreciation of the pound against gold would probably cause the outflow of that unwanted money. Another possible result is that, in spite of the solidarity of the gold bloc, the activities of speculators, coupled with the threat of commercial consequences, might drive other countries

A Policy for the Pound

(Holland and Switzerland, for instance) off gold. In any case, the gold countries, in an effort to protect themselves, might be expected to erect further economic defences, in the shape of quotas and other devices as well as tariffs, against countries with depreciated currencies. That this would be a serious handicap to our trade with such countries cannot be denied, though the loss might be cancelled by our enhanced competitive capacity in outside markets. The relative importance of the internal and the external trading of the different currency groups of the world is illustrated in the following table.

WORLD EXPORTS,* 1930

In millions of £s

<i>From</i>	To Gold Group (a)	Sterling Group (b)	American Group (c)	Russia	Far East (d)	Other Countries (e)	Total
Gold Group	882	471	128	31	40	257	1,809
Sterling Group	359	578	136	14	60	249	1,396
American Group	208	331	252	23	71	140	1,025
Russia ..	43	34	5	—	6	21	109
Far East	25	34	64	8	46	53	230
World (including other countries)	..	..	..	..	..	..	5,431

* *Statistical Note.*—The figures on which the table is based have been taken from League publications. In a few cases where the figures of exports from certain countries to others have not been available, the corresponding percentage for 1929, or occasionally an earlier year, has been applied to the total exports for 1930. As the countries concerned are all small, any resultant error in the aggregates would be negligible. The figures for Australia relate to the year ending June 30, 1930.

(a) Austria, Belgium, Czechoslovakia, France, Germany, Hungary, Italy, Netherlands, Poland, Roumania, Switzerland, Dutch East Indies. Austria has been included, in spite of the fact that her exchange is effectively depreciated against gold and that she gave general support to the sterling group at the World Conference, because the closeness of her trade relations with her neighbours binds her economic future inevitably to theirs. The group contains two elements: the gold standard countries proper (France,

A Plan for Sterling

Owing to the omissions from the various groups (especially the sterling group) which have had to be made for want of available statistics, the table—striking as it is—does not bring out with full force the comparative importance of trade within the different groups. In 1930, for instance, the exports of the United Kingdom totalled £571 million, divided as follows: British Empire, excluding Canada, £219 million; rest of sterling group (including only Argentina from the American continents), £99 million; Canada and United States, £59 million; gold group proper, £99 million; artificial gold standard countries, £38 million; China and Japan, £17 million; and the rest of the world (mostly Latin America), £40 million.

There is no denying that the curtailment of the trade of the sterling group with the gold group, even though partly counterbalanced by increased trade with the United States and other outside countries, would be a serious matter. But we are threatened with far worse dangers by the pursuance of our present course. The necessity of paying their debts has forced the Dominions to restrict their imports and to expand their exports. The former

Belgium, Holland, Switzerland, Italy, Poland, and the Dutch East Indies), with exports totalling £992 million, or 18·3 per cent. of world exports in 1930; and those countries whose exchanges have been maintained at a nominal parity with gold by means of foreign exchange control.

(b) Denmark, Greece, Norway, Spain, Sweden, United Kingdom, Argentina, Australia, Egypt, India, and the Union of South Africa. For want of available statistical material, a number of important "sterling" countries have had to be omitted from the group, including British Malaya, Irish Free State, New Zealand, Ceylon, Portugal, and British colonies in Africa, whose combined exports alone exceeded £200 million in 1930.

(c) The United States, Canada and Brazil. The last is, of course, only representative of a large group of Latin American countries which follow the dollar rather than sterling. Canada has subscribed to the declaration of the British delegations to the World Conference, pledging them to maintain exchange stability among themselves as far as possible, but she has not been placed in the sterling group because she is clearly within the American economic orbit.

(d) China and Japan.

(e) This category includes, of course, a great many countries which should be classified in one or other of the first three groups, were the figures available.

A Policy for the Pound

necessity made it extremely difficult for them to offer valuable concessions at Ottawa, while the latter has caused some critics to complain that the Dominions are violating the spirit of the Ottawa agreements by flooding this country with cheap agricultural products. The counter-demand that the Dominions should restrict the export of these products evokes the even more vociferous cry that Great Britain is thus herself violating the spirit of the Ottawa agreements. From this trouble, which with its mutual recriminations weakens the whole fabric of the British Commonwealth, there is no escape save in a considerable rise of prices. We may pay lip-service to that ideal as much as we please ; we shall get no nearer to it while our currency is pegged to a fundamentally deflationary system. Once the start is made, moderation and control will be needed, but we have the capacity for both.

IV. CURRENCIES AND NATIONALISM

THERE is a broader angle from which the monetary problem may be regarded. Undoubtedly the present crisis has been brought about by excessive nationalism in the field of currency as well as in that of trade. So long as each country on the gold standard was attempting to pursue its own independent monetary policy, the international standard must sooner or later have broken down, even if tariff barriers had been far lower than they were. On the other hand, the most ably managed international standard must eventually have proved incompatible with a régime of tariff nationalism, which obstructed the necessary adjustments of commodity trade to meet financial fluctuations. For all the fine words of statesmen at South Kensington, nationalism, economic as well as political, is a very vital force, and the likelihood of a great change of heart, such as would bring down tariffs to a moderate level, is very remote indeed. A certain measure of tariff nationalism having been forced even on ourselves, we must now

Currencies and Nationalism

face the question whether monetary internationalism is fundamentally compatible with commercial protectionism. Certainly to return now to the gold standard without first securing some liberation of trade would be to condemn the standard to a repetition of the breakdown of the last two years.

A purely negative independence, on the other hand, is worse than valueless. Our commercial policy must be directed towards tempering nationalism by more liberal policies within certain groups which are predisposed towards mutual concessions. That was, at any rate, the aim of the United Kingdom at Ottawa—to secure freer trade within the British Commonwealth as an offset to high protectionism elsewhere. In precisely the same way, under existing circumstances, a group policy in monetary matters, assuring stability of exchanges within the group on the essential basis of a common policy in respect of price levels, is the only practical alternative to complete chaos in international exchanges. This was precisely the theme of the announcement of monetary policy made by the British delegations to the World Conference. That declaration may well inaugurate an entirely new régime in monetary relations, primarily within the British Commonwealth, but also, perhaps, among foreign countries of like mind, to whom the declaration offered an open invitation to subscribe to its principles. But action as well as intention is required if the group policy is to be a reality. It is no good asserting that a rise of prices is our primary object, and that we have no commitments linking our currency to that of any other country or group, when in practice we maintain complete stability against a group in which the policy of raising prices is, to say the least, suspect. With a rise of prices, moreover, the reduction of tariffs within the group becomes practical policy, because then, and then only, can the debtor members pay their obligations without cutting their imports to a minimum and promoting exports which compete ruinously with agriculture at home.

A Policy for the Pound

The wider the group the better. Many other countries off the gold standard are prepared to stabilise their currencies against sterling if sterling prices rise adequately—but not otherwise. They, too, ask for deeds as well as words. Several of them have public works programmes whose chance of success in inflating prices would be greatly improved, if for none other than psychological reasons, by the pursuance of a similar policy here, co-ordinated with theirs. If we can secure their adhesion, we shall have produced a far greater measure of monetary stability than is involved in a fixed relation between the pound and gold; for the latter course opens the prospect of defection by any and every currency now in the sterling bloc. Australia, New Zealand and Denmark, though they have joined the pound again at a lower exchange rate, have already been compelled to depreciate their currencies against sterling. We must choose, it seems, one group or the other. The gold group, large as it is, includes a number of countries practising exchange control, with whom stability of exchange rates is a farce, and some like Germany who have adopted *autarkie* as their economic ideal. The sterling group, on the other hand, is one with which we possess the closest political and racial as well as commercial ties. Hence there can be no doubt which group we must choose.

These economic considerations have a political aspect too. The Nazi revolution, and the disturbed state of European politics, have forced us to reconsider our attitude towards the Continent. The Dominions are frankly suspicious of our European entanglements, and the United States, we may be sure, will wash her hands of any European quarrel. The sterling group is a group of pacific democracies, connected by ties of common culture and political ideals to the United States, and through her to the other American republics. To bind ourselves to gold is to disappoint the Dominions, and to repudiate the chance of a fresh monetary and economic *entente* with

TAXI Currencies and Nationalism 00 A

America. The economic isolationism of the United States marches with its political isolationism; hence what we may do to encourage the one furthers the other also. Just as Anglo-American co-operation and friendship are, more than ever before, the soundest basis of world peace, so Anglo-American co-operation in a policy of raising commodity prices, and thereby making possible a mutual liberation of trade, is the soundest basis of world prosperity.

Nevertheless, we must by no means forsake the pursuit of world-wide political concord, nor need economic co-operation within the Empire circumscribe the ultimate goal of British commercial policy. By the same token, the ultimate goal of British monetary policy must be the restoration throughout the world of an international currency standard, made possible by a liberation of trade following a general rise of prices. It may or may not be the gold standard, but if it is then gold must be the instrument and subject, not the lord and master, of the international system. The independence of the various States in monetary policy must be limited by the need for maintaining, by international management, stability in the purchasing power of gold. If they are not ready for such a curtailment of their monetary sovereignty then the time is not ripe for the restoration of the gold standard. The only alternative to international co-operation is a repetition of the conditions of the period from 1926 to 1931, when the gold-hoarding of this country, or the speculative inflationism of that, prevented other Powers from adapting their monetary policies to their industrial requirements, and eventually drove them off the gold standard. Experience of international monetary co-operation within the sterling area, which is foreshadowed by the declaration of the Dominions and the United Kingdom, will stand us in good stead when eventually we attain the ideal of an international managed standard.

A COMMONWEALTH TRIBUNAL

IN September, 1929, when His Majesty's Governments in the United Kingdom, Canada, Australia, South Africa, New Zealand and India, accepted as compulsory the jurisdiction of the Permanent Court of International Justice under the so-called "optional" clause of Article 36 of the Statute of the Court, they excluded from their declaration of acceptance certain classes of disputes, one of which was "disputes with the government of any other member of the League which is a member of the British Commonwealth of Nations." "All of which disputes," they went on to say in identical terms, "shall be settled in such manner as the parties have agreed or shall agree." A few days earlier the Government of the Irish Free State had accepted the clause without this reservation, but so long as it is maintained by the other members of the Commonwealth* there is no means whereby a dispute between any two of them can be brought before the Permanent Court under the clause.

The reasons for this reservation by the majority of the members of the Commonwealth are well understood. Sentiment doubtless enters into them, but it is not an unworthy sentiment; and in any case there are reasons for it other than sentimental reasons. It implies no lack of appreciation whatever of the invaluable services which the Permanent Court has already rendered, and no lack of confidence in its future, to hold that for *inter-imperial* disputes a world tribunal is not the most appropriate that can be devised. Whether we prefer to describe the relations between members of the Commonwealth as constitutional, or as quasi-international, or even as international, it is clear that the "common allegiance" and "free association" which all members of the Commonwealth accepted in the Balfour Report give those relations a

* The Dominion of Newfoundland is not a separate member of the League or of the Permanent Court.

A Commonwealth Tribunal

special character. The Commonwealth is a league within the larger League, and it was the conditions of the larger League, and not those of the Commonwealth, that determined the constitution of the Permanent Court. In all international organisation one of the most fundamental difficulties is the lack of homogeneity among the nations whose needs the organisation has to serve, and in particular the very limited sense in which all the nations of the world taken together can be regarded as forming a true *community* on the basis of which common institutions can be well and truly founded. It is unwise from any point of view, even from that of the larger group, to neglect the advantages for organisation that are afforded by a degree of community already existing among a group of nations, such as does already exist, in spite of real and important differences, between the members of the Commonwealth.

This is at least as true of the problems of judicial as it is of those of political or economic organisation. For the judicial function demands other qualities besides those of learning and impartiality; it can never be reduced to the mere logical application of pre-existing rules to situations of fact; it is necessarily formative in its tendency, and it is best entrusted to judges whose own minds have been formed in the *milieu* within which the disputes with which they have to deal will arise, rather than to those who, though they may be equally competent, are unfamiliar with that *milieu*. From the nature of the case only a small minority of the judges of the Permanent Court can ever have experience of the special problems of the Commonwealth. But the exclusion of inter-imperial disputes from the jurisdiction of the Permanent Court is a merely negative event, and the members of the Commonwealth have hitherto not addressed themselves very seriously to the positive side of the problem of the method by which their disputes are to be settled.

A Commonwealth Tribunal

I. THE EXISTING JUDICIAL MACHINERY

IN 1930 the Imperial Conference, taking up a rather jejune reference to the problem in the Report of the Conference of 1929 on the Operation of Dominion Legislation, declared that "some machinery for the solution of disputes which may arise between the members of the British Commonwealth is desirable." It was agreed, however, "in order to avoid too much rigidity, not to recommend the constitution of a permanent court, but to seek a solution along the line of *ad hoc* arbitration proceedings. The Conference thought that this method might be more fruitful than any other in securing the confidence of the Commonwealth." Doubtless the statement of the reasons for this decision, the fear of "rigidity," whatever that may mean, and the need for allowing for the growth of "confidence," was not altogether candid, but when we remember that a few months earlier all the members had had sufficient "confidence" to submit their disputes with foreign nations to the very system which they regarded as too advanced for their disputes *inter se*, a permanent court with compulsory jurisdiction, the language does not seem very happily chosen.

A few further details of the proposed system of "arbitration" were added. "In the absence of general consent to an obligatory system it was decided to recommend the adoption of a *voluntary system*." The competence of the arbitration tribunals was to be *limited to differences between governments*, and to such differences only as are *justiciable*. A tribunal was to be constituted *ad hoc* for each dispute, and to consist of five members, none of whom was to be drawn from outside the Commonwealth. Two members were to be selected by each party, one of whom must be drawn from a member of the Commonwealth not a party to the dispute, and the members so chosen were to select

The Existing Judicial Machinery

another as chairman. Assessors with special knowledge and experience in regard to the case to be brought before the tribunal were to be admitted if the parties so desired. The expenses of the tribunal were to be borne equally by the parties, each party bearing the expense of presenting its own case.

So far as it goes this scheme was apparently modelled on the scheme of arbitration devised at the first Hague Conference of 1899 and revised at the second Conference of 1907. But it omitted many of the features which, at that time, made the Hague scheme, imperfect though it was, a valuable advance in international organisation. The submission of a dispute to arbitration requires the agreement of the parties on a number of points relating to the constitution and the procedure of the Court, which are not in themselves controversial, but are apt to become so if agreement has to be reached when feelings may have become embittered by the outbreak of a dispute. One of the merits of the Hague scheme was that it included a code of arbitration procedure, regulating these details, though subject to variation by agreement between the parties. Another of its merits was that it went some way towards mitigating the evil of leaving the choice of arbitrators to be made *ad hoc* after a dispute has arisen by creating a standing panel of qualified persons from whom the arbitrators were to be chosen. Neither of these features was reproduced in the scheme of the Imperial Conference, which must probably be regarded as little more than a recognition that the problem of the method of settling disputes between members of the Commonwealth is one that awaits solution. It is significant that on the occasion of the one serious dispute since 1930, that between the United Kingdom and the Irish Free State over the land annuities*, it proved impossible to apply the Conference scheme.

Prior to the scheme of the Imperial Conference, the only constitutional machinery available for the settlement of

* See THE ROUND TABLE, No. 88, September 1932, p. 747.

A Commonwealth Tribunal

inter-imperial disputes of a legal character has been the system of "special references" to the Judicial Committee of the Privy Council. This jurisdiction must not be confused with the ordinary appellate jurisdiction exercised when the Committee sits to hear the complaint of a private litigant against the determination of some subordinate court. The jurisdiction by way of "special reference" arises under Section IV of the Judicial Committee Act, 1833, the terms of which provide that "it shall be lawful for His Majesty to refer to the said Judicial Committee for hearing or consideration any such other matters (*sc.* other than the "appeals" mentioned in the preceding section) whatsoever as His Majesty shall think fit, and such committee shall thereupon hear or consider the same, and shall advise His Majesty thereon in manner aforesaid." Since the war the "special reference" has been used in four cases. In 1919 the Committee was asked to advise on the ownership of certain lands in Northern Rhodesia on the taking over of that territory by the Crown from the British South Africa Company; in 1924 on the situation produced in law by the refusal of the Government of Northern Ireland to appoint a member to the Irish Boundary Commission; in 1927, on the petition of the Governments of Canada and Newfoundland, on the boundary between the two Dominions in Labrador; and in 1929, in somewhat curious circumstances not relevant here, on the rights of compensation of retired Irish civil servants. In the Labrador case the judicial character of the "special reference" was emphasised by the Lord Chancellor, who pointed out that the Committee's duty was to consider, not where "the boundary might wisely or conveniently be drawn, but only where, under the documents of title brought to its notice, that boundary is actually to be found," and the case was treated in all respects as though it had been, as in substance though not in form it was, a contentious litigation between the two Dominions.

It will be observed, however, that of the four recent

The Existing Judicial Machinery

cases mentioned above, only one, that of the Labrador boundary, related strictly to a difference between members of the Commonwealth, and in fact the "special reference," though it has been useful as a method of settling such differences, has never been specialised to that purpose. There is no statutory limitation of the subject matters on which His Majesty may require the advice of the Committee, and those on which it has been sought from time to time have been very miscellaneous in character. They include questions as to the removal from office of colonial judges, formerly a rather frequent subject of reference; disputes as to the respective jurisdiction of the bishops of Capetown and Natal, and as to the relative rights of the Legislative Council and the Legislative Assembly of Queensland; and (at the request of a Select Committee of the House of Commons) the question whether a Member of Parliament (Sir Stuart Samuel) had become disqualified from sitting in the House.

The variety of the uses to which the procedure by way of "special reference" can be adapted is perhaps in itself a disadvantage when its suitability as a method of settling disputes between members of the Commonwealth is under consideration. The instances cited above show that while the procedure can be used judicially, as in the Labrador boundary case, it is not necessarily so used, for the Committee may equally well be called upon to give its legal advice when the Crown is acting in a capacity other than its judicial. In such cases the advice does not necessarily take the form of a judgment delivered in open Court, and may be tendered confidentially to the Crown. But apart from this objection it would probably be unfortunate to link up the question of a Commonwealth tribunal with the controversy over the maintenance or otherwise of the ordinary appeal from the Dominions to the Privy Council, with which it has no necessary connection. Yet it is obvious that whatever objections are felt in certain parts of the Commonwealth to the practice of appeals

A Commonwealth Tribunal

would apply with equal force to the system of special references. The special reference is initiated by an Order in Council, that is to say, by His Majesty acting on the advice of the Privy Council in the United Kingdom. The Judicial Committee itself exists under imperial statutes, and though judges from the Dominions may be members of it and do occasionally take their seats, as they did in the Irish boundary case, its personnel is predominantly drawn from the Bench of the United Kingdom. These are in a sense merely formal difficulties, but the recent history of the Commonwealth shows a trend, which no one desires to reverse, away from even a formal difference of status between its parts. On the other hand, with the single exception of the monarchy itself, the Privy Council is the most venerable part of the constitution of the Empire, and it should be possible, in the interests of historical continuity and of the immediate prestige of a new Commonwealth tribunal, to build upon it as a foundation. The tribunal might, if it were so desired, be constituted as a new Committee of the Council, its constitution and procedure being of course determined by agreement between the members of the Commonwealth.

II. A PERMANENT COURT

THE Conference of 1930 gave no reasons for its opinion that some machinery for the solution of disputes between members of the Commonwealth is desirable, perhaps because the reasons are obvious. Differences of opinion between them are inevitable from time to time; but such differences need not be embittering, and the surest way to secure that they shall not be so, is that there should always be ready to their hands a means of resolving them, to which resort can be had in a proper case as a normal and friendly step in their relations. The statesmen of all parts of the Commonwealth have traditionally

A Permanent Court

distrusted the hardening influence of law, and have generally preferred to allow their relations to be moulded by political conventions rather than by rule. On the whole this policy has been a wise one; but even so there have been occasions in the past where they have found it necessary to resort to a legal determination of their respective rights, and it seems not unlikely, especially in view of the policy of complicated agreements which has now been introduced at the Ottawa Conference, that these occasions will be more numerous in the future. It is not suggested by the advocates of a Commonwealth tribunal that the members of the Commonwealth should rush into litigation at the first disagreement; such a danger is purely imaginary. But it is not the part of wisdom, as the present controversy over the Irish land annuities only too clearly shows, to be unprovided with any means whereby a disagreement, which friendly discussion has failed to dissipate, may be resolved in the last resort.

There is another possibility of usefulness in a Commonwealth tribunal, on which it is not necessary to enlarge but which should not be lost sight of. It is still uncertain how far the Statute of Westminster may prove to have affected the position of the King, but it is at least possible that he may, in some future contingency, be placed in a difficult position. It might be of inestimable importance to the whole Commonwealth that, in so far as his difficulty was a legal one, it should be possible for him to refer for advice to a tribunal of the highest prestige, whose right to speak in the name of the whole Commonwealth would be beyond dispute.

In nothing were the recommendations of the Conference more disappointing than in their preference for a system of *ad hoc* arbitration rather than a permanent court of justice. An arbitral award is, or at any rate ought to be, a judicial decision, that is to say, it is a decision arrived at by the application of legal principles and not by way of compromise. But a mere court of arbitration can attract

A Commonwealth Tribunal

no prestige, can build up no continuity of tradition, and can only in a slight degree influence the consistent development of the law. Moreover the special constitution proposed by the Conference was a particularly bad one. Of the five members of the Court which it recommended, four were to be nominees of the parties, appointed after the outbreak of the dispute on which they would adjudicate, that is to say, appointed in circumstances in which the maintenance of a truly judicial attitude is particularly difficult. The Hague Conferences were unable to advance beyond the stage of *ad hoc* arbitration tribunals because it proved impossible at that time for fifty odd nations to agree on a method of electing permanent judges which each nation could regard as fair to itself, but the Conferences definitely regarded their work as a *pis aller*, and it is now twelve years since the problem of finding an acceptable method of appointing the judges was solved in the international community by the establishment of the Permanent Court. In the Commonwealth, owing to the small number of its members, the same problem can hardly be said to exist. Apart from details, once the decision to make the Court a permanent institution has been taken, its constitution almost settles itself. There should clearly be a judge appointed by each of the governments of the eight units of the Commonwealth, not necessarily from its own Bench or Bar but at any rate from within the Commonwealth. As a fairly large quorum, say nine, would be desirable in view of the magnitude of the issues with which the Court would have to deal, it might be advisable that there should be some additional judges, co-opted perhaps from any part of the Commonwealth, in the first place by the judges nominated by the governments, and subsequently by all the members of the Court. It would not be difficult to define the technical qualifications for appointment to the Court, if it were thought necessary to do so. The essential point would be that the term of appointment should be a long one, say, nine years, and that during the

A Permanent Court

term the tenure of a judge should be absolutely secure. If the total number of the judges were fixed at fifteen, and the term of office at nine years, the continuity of the Court might conveniently be maintained by a system under which five judges would retire every three years, but would be eligible for re-appointment. Payment should probably take the form of a nominal salary as a retaining fee with an adequate honorarium for the periods during which the Court was sitting, both being made payable out of a central fund and not by individual governments. The Court would naturally make its own rules of procedure. It might be desirable to provide that during his term of office a judge should not hold any public office other than of a high judicial character. The Court would naturally sit in any part of the Commonwealth according to convenience, and members of any of the Bars of the Commonwealth would be entitled to appear before it.

Under the general heading of the "competence" of the proposed tribunal, several important questions would have to be determined. The first is that of the parties to whom it should be open. On this the Conference of 1930 reached unanimous agreement; the Report tells us that "no doubt was entertained" that only differences between governments should come before the Court, and the limitation is clearly a sound one. It is indeed implied in the whole purpose of the Court, which is the solution of differences which may arise between members of the Commonwealth. But the limitation should certainly be subject to an understanding similar to that which is accepted in the international sphere, where the practice of diplomatic protection allows a government to espouse the cause of one of its subjects. The circumstances which in international law give rise to a claim for damages for injury to a subject are, on the whole, fairly well settled, or at least it is unlikely that there would be any serious difference of opinion about them among the nations of the Commonwealth; there is no reason why they should not

A Commonwealth Tribunal

be equally applicable to inter-imperial relations. At present indeed there is no mode by which the government of one part of the Commonwealth can prefer a claim for compensation against the government of another, with the result, as Professor Keith* has pointed out, that a British subject has less effective protection against an act of illegality suffered by him in a part of the Commonwealth other than his own than he would if it had occurred in a foreign country. The position is even less creditable to the Commonwealth in view of the improvements in the machinery for preferring claims of this kind which have been made recently in the international field; nothing like the action of the Permanent Court in the controversy with France over the Tunis nationality decrees, or like that of the Council of the League in the controversy with Persia over the Anglo-Persian Oil Company concession, is at present possible within the Commonwealth.

Assuming then that the parties before the Court should be governments, the question arises what kinds of inter-governmental disputes ought to be referred to it. On this the Report of the Conference is singularly unhelpful. The Conference was of opinion that the *differences should only be such as are justiciable*. Now "justiciable" is a word which has unfortunately fixed itself in the vocabulary of international law and its record there is one of almost unrelieved confusion. It means, like Humpty Dumpty's words, "just what we choose it to mean, neither more nor less." It certainly implies that disputes are of two distinct kinds, those which are intrinsically susceptible of settlement by the application of law and those which are not, but it leaves undefined the quality which would assign a particular dispute to one class or the other. The casual reader of the Conference Report would naturally assume that "justiciable" is a word with a scientifically ascertainable meaning, that the quality which makes a dispute susceptible of legal settlement is something objective in the

* *Imperial Unity and the Dominions*, p. 163.

A Permanent Court

dispute which can be easily recognised at any rate by a lawyer. But the truth is that there is no technical difficulty in deciding *any* dispute by the application of legal principles. Neither any inherent incapacity of the judicial process as such, nor the immaturity of a particular legal system such as the international system, creates any formal obstacle, and that for a very simple reason. The reason is that in any legal process the complainant party, if he is to succeed, must be able to formulate his complaint in the form of a "cause of action," and if he cannot show a cause of action which is well founded in law, the decision of the law will be against him ; *semper praesumitur pro negante*.

Every dispute therefore is "justiciable" in the sense that it *can* be settled on the basis of law, but of course it is not the case that a legal settlement is always the best form of settlement or the most likely to be durable. Within the organisation of a State we compel the individual to accept a legal settlement of his grievance unless and until the law is changed, but the position as between nations is less simple. "*Il est ridicule*," said Montesquieu, "*de prétendre décider des droits des royaumes par les mêmes maximes sur lesquelles on décide entre particuliers d'un droit pour une gouttière*." Law is not a panacea, and its vitality depends on its general acceptability to those whose relations it controls, and that again on its capacity of adaptation to changing circumstances. The difficulty of changing the existing legal *status quo* is a serious limitation on the usefulness of law as a regulating force in the international field, but in this respect the Commonwealth has great advantages. For it has the advantage of a constitution which, as recent events have amply shown, is extremely flexible, and the further advantage that the most embittering causes of international disputes, frontier questions, minority questions, and the like, either do not exist in it at all or where they do are far less acute.

The answer to the problem of defining the disputes which should be submitted to an inter-imperial tribunal really

A Commonwealth Tribunal

depends upon the answer to the question whether submission is to be voluntary or compulsory. If it is to be voluntary, there is no need to specify the disputes which may be submitted; the parties will certainly not agree to submit a dispute unless both are prepared to accept a settlement of it on the basis of their legal rights, and in determining these the tribunal, being a court of law, would, for the reasons just given, find no difficulty at all other than those which a court must always be prepared to overcome in a complicated legal controversy. It would be sufficient that the agreement establishing the Court should declare, in the terms used in Article 36 of the Statute of the Permanent Court, that "the jurisdiction of the Court comprises all cases which the parties refer to it."

But if the members of the Commonwealth feel too little confidence in one another to accept as compulsory the jurisdiction of the tribunal, it is doubtful whether, except perhaps as a provisional measure, it would be worth while to establish the Court at all. The strongest, perhaps the only, argument for a voluntary system is the risk that in certain disputes a declaration of legal rights may be an unsatisfactory settlement, and that if it is so it may be impossible to effect a change in the law. The risk is incomparably greater in the international field, and yet in that field all the members of the Commonwealth have decided to disregard it. The only reason given for the recommendation of the voluntary system by the Imperial Conference is "the absence of general consent to an obligatory system," but is "general consent" indispensable? Does not the system of the Permanent Court, where the jurisdiction is in principle voluntary but can be made compulsory for those who are willing to go so far by acceptance of the "optional" clause, suggest a way out of the difficulty? The pace of development ought not indefinitely to be regulated for all the members of the Commonwealth by the pace at which the slowest member is prepared to move, and there would be nothing invidious

A Permanent Court

in an absence of uniformity in the obligations undertaken towards the Court when each would be free to determine the extent of its own.

The existing Optional Clause of the Permanent Court, which ignores the pseudo-scientific classification of disputes as justiciable or non-justiciable, offers a model which might easily be adapted to the jurisdiction of a Commonwealth tribunal. By this the members of the League declare that

they recognise as compulsory *ipso facto* and without special agreement, in relation to any other Member or State accepting the same obligation, the jurisdiction of the Court in all or any of the classes of legal disputes concerning :—

- (a) the interpretation of a treaty ;
- (b) any question of international law ;
- (c) the existence of any fact which, if established, would constitute a breach of an international obligation ;
- (d) the nature or extent of the reparation to be made for the breach of an international obligation.

This clause has been microscopically examined time and again since it took effect in 1921, and certain minor alterations in the drafting might well be introduced in adapting the terminology to an imperial tribunal. Here it is sufficient to suggest in general terms that the jurisdiction of that tribunal should be declared to cover, for those members who are prepared to accept it as compulsory, disputes between the governments of the Commonwealth concerning the interpretation of their mutual agreements, concerning any question of law, concerning the existence of disputed facts, and concerning the nature and extent of any reparation due for the breach of their obligations *inter se*.

No difficulty need be anticipated in regard to the legal principles which a Commonwealth tribunal would apply. If the experience of the Permanent Court is any guide—and in this respect it is probably a safe one—by far the most common class of differences with which it would have to deal would relate to the interpretation of written instruments, and on this the practice of the various judicatures existing

A Commonwealth Tribunal

in the Commonwealth is already fairly uniform and would afford an adequate guide. In other cases the Court would naturally apply the law and custom of the constitution of the Commonwealth, and where, as is often the case, the relations between its members are quasi-international, it would apply international law, the interpretation of which in the different parts of the Commonwealth is again fortunately uniform. The practice of the Court in itself would gradually create precedents which it would tend to follow in similar cases, but it would probably be desirable that it should follow the practice of the Judicial Committee, the Supreme Court of the United States, and the Permanent Court, in which precedents are not treated as absolutely binding, rather than that of the House of Lords, in which they are so treated. In a court from which there is no appeal there are obvious objections to the latter practice, but the point is, after all, one of detail. What is important is that it should be realised that while the Court would necessarily and rightly exercise a formative influence on the development of the Commonwealth constitution, it would not be tempted by any dearth or uncertainty of the legal principles available for application to arrogate to itself a quasi-legislative or political authority. Such a result is not only highly improbable in itself but also, if it did occur, it would not be difficult to correct. The Commonwealth, it is true, has no formal legislative organ for effecting changes in the law regarding the relations of its members *inter se*; if it had, such changes might perhaps be more difficult of introduction than in fact they are. The fear of a permanently stabilised constitution need not for a moment deter the members of the Commonwealth from establishing a tribunal, if on other grounds they believe such a policy to be wise.

THE HONEYMOON OF THE NEW DEAL

"The only hope for improving present conditions, restoring employment, affording permanent relief to the people, and bringing the nation back to its former proud position of domestic happiness and of financial, industrial, agricultural, and commercial leadership in the world lies in a drastic change in economic and governmental policies."

THE quotation is from the prospectus of the New Deal, the platform of the Democratic party adopted in Chicago in June, 1932.* The most hardened cynic cannot say that the new Democratic President is hedging on this solemn affirmation of his party. We are getting "a drastic change in economic and governmental policies." For the time being at least deflation is at an end. Nearly all commodity prices in terms of dollars are higher than a year ago. Wheat, corn and oats have more than doubled. Nearly all the indices of business activity are higher than a year ago. The steel industry is operating at approximately 50 per cent. capacity as against a low of 15 per cent. Carloadings and electric power production each week exceed the corresponding figures for 1932. Stock prices have more than doubled. Bond prices have increased in some cases five-fold and ten-fold. The downward spiral has been interrupted. The circle of fate is no longer whirling viciously. On the contrary its revolutions seem to be beneficent.

What caused the change? How long is to be this respite from disaster? Have we really entered on the long ascent to prosperity?

The classic theory used to be that a depression was an economic disease of what the doctors call a "self-limiting" character. That is, it had a certain fixed course or "run." People lost "money" and jobs. Corporations went into

* See THE ROUND TABLE, No. 88, September 1932, pp. 800, 801.

The Honeymoon of the New Deal

receivership or bankruptcy. Property changed hands. But the patient invariably recovered and the recovery was achieved by normal recuperative processes. The inevitable necessity for replacements and renewals, the irresistible temptation of low prices to potential buyers, the unfailing operations of the law of supply and demand, brought in the end revival and the return of confidence.

A student of psychiatry has traced in detail and very instructively the analogy between the so-called business cycle and the course of maniac depressive insanity. The comparison may not be flattering to our industrial system, and the analogy may not be complete. But the main point for the observer of our present spectacle is that, in economics as in nature, there is observed a law of action and reaction, of expansion and contraction, of ebb and flow, each movement automatically generating in course of time a corresponding reverse movement. Under this view of economic disturbances, business and industrial structures must be founded as solidly as possible to resist the buffets of economic storms, but the orthodox economists knew no incantations for changing the direction of economic gales or abating their fury. The wind remained in the storm quarter until it was ready to change. There was not much good in playing King Canute to a depression.

Observers of the present depression in America believed at first almost unanimously that the ebb tide must ultimately of its own accord turn to flood. They said that "liquidation must run its course," that stocks would reach "a firm base from which a sustained advance could begin," that the "business upturn was soon due." But as the years wore on faith wavered. Still Mr. Hoover and the Republican Administration were slow to lose confidence in natural processes. It was not until England quit the gold standard that Mr. Hoover got the National Credit Corporation under way. Then early in 1932 came the Reconstruction Finance Corporation with the avowed plan of stopping liquidation and tiding over banks, railways and insurance companies

The Honeymoon of the New Deal

to better times. The Glass-Steagall Bill, enlarging the classifications of paper eligible for rediscount, and the vigorous policy which led to open market purchases of a billion dollars' worth of government bonds by the Federal Reserve Banks in the spring and summer of 1932, were also frankly inflationary.

It may be that the vigorous response of the markets in July, 1932, to the adjournment of Congress, the American adherence to the gold standard, and the results at Lausanne, vindicated the classic theory of spontaneous recovery from deflation in the natural operation of economic laws, notably our old friends Supply and Demand. This is not easy to say. By September, 1932, it became apparent from the election of a Democratic Governor in the solidly Republican State of Maine, and from other highly indicative straws, that public patience was exhausted. The long misery of deflation had been too much. The prospect of a change, of a New Deal, was too tempting. The defeat of Herbert Hoover in November ended the hope for the success of his policies. For four months we drifted without leadership. Financial improvement in the first weeks of 1933 proved shortlived. And inauguration day (March 4) found us with every bank in the country closed. Deflation had gone a long way, and with the subsequent impounding of something like 10 per cent. of all our bank deposits in banks which remained closed, it was apparent that it had to go further.

Thus the new Administration began at the bottom. Under such circumstances it was not remarkable that the temper of the new Congress was desperate. Congressmen of both branches were willing to end deflation at almost any price. Millions believed that no change could impair their fortunes.

So the impetus to inflation was sharpened. In April came the Thomas farm inflation Bill and the departure from the gold standard. From then on the outlines of the New Deal began to emerge. The President surrounded

The Honeymoon of the New Deal

himself with a group of young dons from Columbia and elsewhere, and the press acclaimed his "Brain Trust." Congress, with amazing and unwonted tractability, passed anything the President wanted and cried for more. There emerged at least two pieces of legislation of a character truly revolutionary—the new Banking Bill (also called the Glass-Steagall Act) and the National Industrial Recovery Act which as Nira is likely to become as famous as her elder sisters, the English Dora and the Soviet's Nep.

Then we went in for a stabilized dollar, for a higher price structure, for a colossal program of public works, for the double budget. And so to the London Conference.

II. SCHOOLS OF ECONOMIC THOUGHT

THIS is not the place to descant at length upon the lines drawn between the orthodox and the Keynesian economists, between the gold school and the managed currency school, between the deflationary advocates of budget balancing with public economy and the inflationary advocates of public works erected on government borrowings. Suffice it to say that the President has gone Keynesian. Policies may change before this article sees print. Time moves fast. The President is a nimble politician and any day we may see a new brain trust of other convictions and policies. But just now we appear to have forsaken gold and taken up with a managed currency. And we are to spend three billion three hundred million dollars on public works.

As far as budget balancing goes we have a "regular" budget, which by rigid economies is brought to balance, and an extraordinary, emergency or capital expenditure budget which doesn't pretend to balance but simply inflates federal credit, which is of course akin to inflating federal currency. Is this sound? The Administration says yes, and instances the analogy of the operating and capital

Schools of Economic Thought

accounts of a public utility. Orthodox economists and their disciples say no. A budget either balances or it doesn't, and the President's doesn't. They point to the absurdity of sacking thousands of tried and useful federal employees while the Government drafts raw and unskilled recruits for a Civilian Conservation Corps, to perform expensive works of doubtful advantage. There is probably no one in the country who has not remarked instances of drastic governmental economies existing side by side with apparently unjustified governmental extravagance. It has been caustically observed that if the two budget systems do not produce satisfactory results, "the advanced economists who shape our national finances may favor us with a three budget system of keeping the nation's books." In the year ending June 30, 1933, the national debt increased by a little more than three billion. It will certainly increase further in the next fiscal year.

What about a managed currency? Mr. Walter Lippmann, the gifted writer in the *New York Herald-Tribune*, who appears latterly to have entered his appearance for the New Deal, points out that gold currencies are none the less managed currencies despite their metallic base. The management consists in adjustments of the rediscount rates in various nations, in movements of gold from nation to nation, and ear markings for foreign account. But people like Mr. Anderson, the economist of the Chase Bank, whose writings are widely read and persuasive, still say that they have no confidence in the possibility of a managed paper currency divorced from gold. Probably most of the economists are with him. But on the whole, in economics as in religion and the arts, the dissenters attract more attention than the conformists. And the ordinary man in the street—without a job—learns about as much from these economic controversies as he does from reading the theories of eminent scientists about the origin of the universe. There are too many nebular hypotheses in the science of economics. To the layman they are very pro-

The Honeymoon of the New Deal

voking. The only way to test theories is by costly experiment.

We hear a great deal about stabilizing the dollar. What does this mean? Obviously it may mean stabilizing it in terms of gold or in terms of other gold currencies like the French franc. But, say the advocates of a managed currency, it is no less logical to say that a stabilized dollar is a dollar stable in terms of purchasing power and debt paying capacity. What the average American wants to know is what his bread is going to cost him and how many bushels of wheat he will have to sell to raise the mortgage on the old farm. He is not interested in buying francs or sovereigns. Merely to state these clashes of opinion discloses considerable superficiality in popular thinking, but no picture of contemporary America can be just which does not show us rushing about in a bewildered way, being told by one group of eminent gentlemen that a certain course leads to perdition, while another group of gentlemen equally eminent assures us that by the same course and no other shall we attain salvation.

What does the President intend to do about the currency? The farm inflation Bill authorizes the purchase by the Federal Reserve Banks of three billion dollars' worth of government securities. It authorizes the President to issue a like amount of new paper currency with certain sinking fund provisions, and it authorizes him to cut the gold content of the dollar to 50 per cent. of its present weight and fineness.*

Actually, at the time of writing, the only power that has been exercised is the least drastic one of open market purchases of government bonds by the Reserve Banks. This move may be unwise or ineffective or both, but the consequences can hardly be as disastrous as the issue of fiat money or the devaluation of the dollar. Actually, currency in circulation has declined. Money has come back from hoarding. There has been no fiat money.

* See THE ROUND TABLE, No. 91, June 1933, p. 506.

Schools of Economic Thought

But, oddly enough, we learn from London more about the domestic policies of the New Deal. It is consecrated to raising prices and getting men to work. Prices are to be brought to some suitable level not precisely defined, and kept there. President Roosevelt's message to the London Conference probably surprised his countrymen as much as it surprised the delegates. It will bear repeating:—

The sound internal economic system of a nation is a greater factor in its well being than the price of its currency in changing terms of the currencies of other nations. . . . Old fetishes of so-called international bankers are being replaced by efforts to plan national currencies with the objective of giving to those currencies a *continuing purchasing power which does not greatly vary in terms of the commodities and needs of modern civilization*. Let me be frank in saying that the United States seeks the *kind of a dollar which a generation hence will have the same purchasing power and debt paying power as the dollar value we hope to attain in the near future*.*

If this means what it appears to mean, it goes to say that we are not going back to the fixed gold standard, at least while Mr. Roosevelt has anything to say about it. Of course, prices never have stayed within a fixed range for a generation. Under the fixed gold standard, prices of other commodities in terms of gold constantly and necessarily fluctuate. The hardship imposed upon the salaried and *rentier* class by rising prices is a commonplace of commentators on the operation of the gold standard. On the other hand, falling prices are disastrous to the merchant and to labor. If these genuine and sometimes calamitous hardships can be removed from our economic system, there is a chance of ameliorating enormously the ordinary lot of man. Mr. Roosevelt is apparently ready to try the experiment. Just how he proposes to manage currency has not been announced, but it is known that his advisers are advocating "management" through a dollar of varying gold content depending on the fluctuation of prices. If commodity prices start to slip, debase the gold content of

* The italics are the writer's.

The Honeymoon of the New Deal

the dollar ; if they seem to be rising too rapidly, season the dollar more heavily with gold. Make your gold mixture of a richness to suit the occasion. Then prices will be stabilized and men can look with confidence to the future.

Obviously the experiment is of far-reaching importance. It may be comparable in range and import to the communist experiment in Russia. But will it work ? Or will it end, as so many predict, in a loss of confidence in the managers of our currency and in the currency itself ? Mother Earth may be capricious and even niggardly in yielding up her supply of metals, but at least she is honest and plays no favorites. If the new managed currency is not managed any better than credit was managed in 1927, 1928 and 1929, public confidence will fall as low as it has fallen at any time during the depression. And the competitive devaluation of national currencies may become a sport at the Olympic games.

This is not the place to comment on the international repercussions of the President's currency policy as notified to the London Conference. The antipathy of the gold-standard nations is readily enough intelligible. Americans are not so much disturbed about the popularity or unpopularity of their policies abroad. Our natural distrust of all international gatherings, which was so influential in preventing American adherence to the League of Nations, has, if anything, become more acute since 1919. There was little popular interest here in the London Conference. The allusions to it in the press were often somewhat disrespectful. That is partly perhaps due to insularity, but more to our ignorance and despair. What the true-blooded American wants is prosperity. He does not know how to get it, or whom to follow or to trust. If President Roosevelt can produce it by manipulating national currency or credit, all right. If not, all wrong. Prove his policy ineffective, and the honeymoon of the New Deal will end in bickering and acerbity, possibly in divorce by 1936.

A Planned Economy

III. A PLANNED ECONOMY

FROM time to time in the affairs of men there appear phrases which exercise an almost magic power over the human mind. Thus in the eighteenth century we had the "Law of Nature" and the "Inalienable Rights of Man." In the Wilsonian era, many of us can remember how solemnly the ancient hills and immemorial valleys of Europe reverberated to the "Right of Self-Determination."

To-day we have a new phrase that may become no less potent. We must have a "Planned Economy." We have discovered that our capacity for producing shoes or structural steel or newsprint or almost anything else one can think of is far and away ahead of our capacity to wear shoes or to put structural steel into buildings or to get the newsprint into papers, or any of the other things into the normal channels of consumption. Industrial freedom, *laissez faire*, predatory capitalism—call it what you will—has produced a plethora of everything, a crazy surplus with no thought of the consumer. Competition, which in 1890, when we passed the Sherman Anti-Trust law, seemed to be our salvation from corporate wickedness, has turned out to be wasteful and costly. The little fellow who would not be regimented or bullied is no longer sacred. The days of the piratical price cutter are to be numbered. The "larger combinations must in any society prevail." This is what Mr. Rexford Tugwell, the Assistant Secretary of Agriculture, says, and he is in the Brain Trust and reputedly very influential. So the Government must be a senior partner in every business. It must plan. It must blueprint. It must allay the excesses of our ancient freedom.

If we had a "stabilized dollar" and a "planned economy" we should have no depressions. Our production would be constantly geared to our consumption. Our consumer would know what he could afford, and whether and to what

The Honeymoon of the New Deal

extent he could prudently go in debt for the sake of getting it. Credit would be intelligent and a controlled wage policy would enormously increase consumptive capacity, which, of course, would justify more production. Thus we should raise the living standards of the nation, and erect a society more orderly, more disciplined, more socialized, immune from exploitation and the greed of profit seekers. It is a tempting picture, even if not altogether a new one. A world motivated more by love and less by greed is worth working for.

And yet a planned economy will not bear examination much more closely than the right of self-determination or the rights of man or the law of nature. In the first place, economic planning must in many commodities and manufactured products be not on a national, but on a world scale, unless, of course, we are going in for self-containment, which no one imagines can ever be anything more than relative self-containment. In the second place, economic planning as generally portrayed would imply a board of superplanners with a capacity for foresight and appraisal beyond all human experience. Could we rely on the President to discover these men and appoint them, or would our electorate choose them at the polls along with sheriffs, county commissioners, and registers of probate? Once chosen, would the planners be above all temptation as well as above error? Or would they do more logrolling than planning?

As a matter of fact is not the economic world most healthy when it is operating least self-consciously? If one were to sit down after breakfast to plan the next twenty-four hours, with their 24,000 distinct acts of inhaling air into the lungs and then expelling it, with their 100,000 heart beats, and the innumerable muscular movements indispensable to life, would our physiology be expected to improve or not? To a layman it looks as if automatic control in spite of all its failures would be as likely to work as planning. Furthermore, we are apt to forget that to the

Nira

extent that we have now a planned economy it has functioned only in the most fallible way. The Interstate Commerce Commission has not been much more successful in planning our railroad solutions than the railroads. If the unbridled energies of our great industrialists are to blame for our present plight, as in part they doubtless are, it must certainly be said that nothing was more influential in creating the present situation than the shocking maladministration of credit, which is planned by our Federal Reserve Banks and in subordination to them by our bankers, who in 1929 and previous years were supposed to be experienced and able. Just now they are less esteemed.

But Mr. Lippmann says that "modern industrial economy does not 'co-ordinate' itself by the action of supply and demand. At a thousand vital points the system has become rigid through contracts, gentlemen's agreements, virtual monopolies, trade union rules and other devices for interfering with the law of supply and demand. Had that not been the case, the 'markets' might have co-ordinated as rapidly and successfully to a new and lower price level, and we should have made our recovery by completing the deflation."

So Mr. Lippmann concludes we shall have planning, but not centralized planning, in Washington. Presumably it must be industrial planning, each industry to itself as ordained by Nira. We shall see. Planned Economy, like self-determination, addresses itself to genuine difficulties and real injustices. But as a principle of national organization its application is doubtful.

IV. NIRA

NOW as to Nira, the National Industrial Recovery Act signed by the President on June 16, 1933, effective for two years unless sooner repealed or terminated by presidential proclamation. It begins with the recital of an emergency and a long declaration of legislative pur-

The Honeymoon of the New Deal

poses, which includes the purpose "to reduce and relieve unemployment, to improve standards of labor, and otherwise to rehabilitate industry and conserve natural resources." The President is authorized to "establish such agencies, to accept and utilize such voluntary and uncompensated services, to appoint, without regard to the provisions of the civil service laws, such officers and employees, and to utilize such federal officers and employees, and, with the consent of the State, such State and local officers and employees, as he may find necessary, to prescribe their authorities, duties, responsibilities and tenure, and without regard to the Classification Act of 1923, as amended, to fix the compensation of any officers and employees so appointed."

It would be hard to find broader powers conferred upon an executive in time of peace unless it were in the farm inflation Bill.

On application to the President by one or more trade or industrial associations or groups, the President may approve a code or codes of fair competition for such industry or group, if he finds that such associations or groups impose no inequitable restrictions on admission to membership and are truly representative, that such code or codes are not designed to promote monopolies, or to eliminate or oppress small enterprises. "The President may, as a condition of his approval of any such code, impose such conditions (including requirements for the making of reports and the keeping of accounts) for the protection of consumers, competitors, employees and others, and in furtherance of the public interest, and may provide such exceptions to and exemptions from the provisions of such code as the President in his discretion deems necessary to effectuate the policy herein declared."

How far have we not travelled in the twelve years which have elapsed since we sent a man to the White House on a slogan of "More Business in Government and less Government in Business"!

Nira

Then the President, of his own motion or on complaint by a labor or trade organization, may cause an immediate investigation by the Tariff Commission, if he finds that articles are being imported into the United States "in substantial quantities or increasing ratio to domestic production of any competitive article . . . and on such terms or under such conditions as to render ineffective or seriously to endanger the maintenance of any code or agreement under this title . . . In order to enforce any limitations imposed on the total quantity of imports, in any specified period or periods, of any article or articles under this subsection, the President may forbid the importation of such article or articles unless the importer shall have first obtained from the Secretary of the Treasury a licence pursuant to such regulations as the President may prescribe . . . The decision of the President as to facts shall be conclusive."

The Act is very long. It contains provisions for oil regulation, a public works program, highway improvement and additional taxation. All contracts let for highway construction under the Act shall contain provisions insuring that no individual employed on any highway project otherwise than as an executive shall be permitted to work more than thirty hours in any one week. A more extended consideration of the terms of the Act is impracticable, but it is certainly as striking a piece of legislation as ever emerged from an American legislature. The newspapers are now full of codes passed by trade or industrial organizations. Mostly they provide for shorter working hours and a minimum wage. Wages are being raised in nearly all industries to increase purchasing power. Even the Government confesses to some anxiety whether increased business activity will support the new wage scales.

The long path from status to contract, so familiar to readers of Sir Henry Maine, seems to have reached its turning, and we are now on our way from contract back to status. Students of the mediæval system of industrial

The Honeymoon of the New Deal

organization by regulated monopolies and trade codes are struck by this contemporary reversion to mediæval methods. Some people are even quite distressed about it. But Professor Tugwell is delightfully bland. "The old bogies of bureaucracy and red tape frighten no one any more," he tells us. "Business men know that government is quite as well administered as their own concerns." "There is no choice," says Donald Richberg, general counsel of the National Recovery Administration, "between intelligently planned and controlled industrial operations and a return to the gold-plated anarchy that masqueraded as 'rugged individualism.'" Under the circumstances Al Smith's remark seems rather dissonant. He says, "this plan goes beyond anything my imagination can follow . . . I can't understand how it can possibly work." But Mr. Smith is not in the Brain Trust. The deficiencies of his formal education have often been remarked.

* * * *

The New Deal is a revolution, and a curious revolution, accomplished without bloodshed in a nation almost too dazed to comprehend. The insubstantial pageant of our pre-depression world has faded. But is it not a little odd that as the old liberty is snatched away from our misbehaving industrial organizations, we are making very little fuss about liquidating that great experiment in unfreedom, so noble in motive, so disappointing in accomplishment—the eighteenth amendment to the federal constitution? It is just barely possible that the New Deal is not the last word, and that even in industry some one may yet raise the battle cry of freedom against that sweet phrase, a Planned Economy. History might make us some interesting suggestions on this score. But history is bunk. There is nothing left now but economics.

The United States of America.

July 24, 1933.

AN AUSTRALIAN VIEW OF THE WORLD CONFERENCE

WHEN on April 26 Mr. MacDonald and President Roosevelt agreed upon June 12 as the date for convening the Monetary and Economic Conference, they issued a *communiqué* from Washington. In it they declared that "the necessity for an increase in the general level of commodity prices was recognised as primary and fundamental." They suggested also that "action in both the economic and monetary field" was necessary for attaining their objective. This declaration gave some authority to the view prevailing in primary producing countries that the raising of prices was the real task of the Conference. That view was confirmed by the speeches at the opening plenary sessions, when many delegates emphasised the disastrous effects of the fall in prices upon both national and world economics. The Conference, especially the representatives of the overseas countries, accordingly welcomed Mr. Neville Chamberlain's early declaration that "first it was essential to bring about a recovery in the world level of wholesale commodity prices sufficient to yield an economic return to producers of primary commodities and to restore equilibrium between costs and prices of production generally."

The facts of the fall in world prices are so well known as to require no further mention here. The consequences of the fall are perhaps not as fully realised as they might be. At first the fall was concentrated upon the foodstuffs and raw materials of international commerce. Contemporaneously there was a decline of international investment in countries exporting these commodities. This set in motion forces which unbalanced budgets, dislocated the balances of payments, and threw into disorder the internal economy of the raw material and food exporting countries. Soon the repercussions on industrial countries were severe, and the same symptoms of economic dis-

An Australian View of the World Conference equilibrium were apparent in these countries. Deflation was in full swing, and each country—industrial or primary producing—took what measures it could to safeguard its budget and its balance of payments. But these measures were largely deflationary—heavy cuts in government expenditure, reductions in wages, higher tariffs, quotas and acute exchange restrictions. They were also competitive in character and had little chance of overtaking the fall in prices. In the mass they reduced spending power in the world, cut deeply into the volume of international trade, and, in many countries, brought the credit structure to the verge of collapse. Economic nationalism, so strongly entrenched after the war, passed swiftly into what has been rightly styled “economic barbarism.”

The nations were indeed engaged in an economic war which might if unchecked destroy the fabric of international finance and commerce, force down standards of living, and leave each nation with an appalling unemployment problem. To draw again from Mr. Chamberlain's important opening speech: “A reduction in costs would produce further deflationary effects on prices, and costs and prices would follow one another downwards without ever reaching equilibrium.”

II. THE MONETARY CLEAVAGE

NO one who had watched closely the trend of economic policy since the war could fail to detect many weaknesses in the international economic structure. But the overwhelming weakness when the Conference met was the low level of commodity prices. Action to reduce tariffs, modify quotas, remove exchange restrictions and eliminate special subsidies to uneconomic production could not be taken until prices rose, or other means of relieving debtor countries were devised. In the absence of a rise in commodity prices the only means available for giving the relief were a resumption of international lending and a scaling

The Monetary Cleavage

down of existing debts. There was no plan before the Conference for the first form of relief, and no enthusiasm for the second. It may be doubted whether strong debtor countries would welcome either form of relief as a solution of their difficulties. They preferred a rise in prices as the quickest and most satisfactory way out. Since the fall in prices was the proximate cause of existing difficulties, a renewal of the price movement would offer the speediest means of recovery. This at least was the point of view of all the British Dominions, of the Scandinavian countries, of the United States, of the Far East, and of most of the American republics. A writing down of international debts would strike a damaging blow at confidence without giving sufficient relief to the internal economy of the debtor nations. An increase in lending without a rise in prices, if it were practicable, would only make the debt structure more top-heavy. Attention was accordingly fastened upon the steps necessary to raise prices.

The method of attack on this problem was enunciated in the discussions at the opening plenary sessions. Three types of action were suggested by delegates—cheap money resulting from central bank policy, increased expenditure on public works, and the regulation of supply to “the real possibilities of consumption,” as the French Prime Minister put it. But France and the gold countries in general showed no enthusiasm for central bank policy. They preferred, again in the words of the French Prime Minister, “to put an end to the currency war and restore to trade the essential guarantee of monetary security.” Though the Conference proceeded to appoint two main commissions—monetary and economic—and these commissions proceeded in turn to allot work to sub-commissions, the problem of “monetary security” soon became the centre of interest.

On the eve of the Conference discussions on currency stabilisation were in progress in London among central bankers, including representatives of the Bank of England,

An Australian View of the World Conference

the Bank of France and the Federal Reserve Board of the United States. The mere suggestion that the dollar might be stabilised caused a reaction in the commodity and security markets of the United States. President Roosevelt then announced that he had no plans for stabilisation. This announcement not only rendered the bankers' discussion ineffective. It suspended serious monetary discussions at the Conference while the representatives of the gold bloc, the United Kingdom and the United States, canvassed the possibilities of securing an agreement on the stabilisation of currencies.*

It is not possible in this article to deal in detail with these discussions. Though conducted "outside" the Conference, they had a devastating effect on the work of the Conference. Suffice it to say that a declaration agreed to by the gold bloc and the United Kingdom affirming the desirability of attaining "stability in the international monetary field" as quickly as possible, and favouring the ultimate re-establishment of the international gold standard, but leaving countries off gold to choose the time and parity at which they could return, was bluntly rejected by President Roosevelt. From that moment the gold bloc sought to prevent further discussions on monetary problems in the Conference. The British Empire delegations, and those of most other countries outside Europe, together with Austria and the Scandinavian countries, were anxious to proceed with all the problems on the Conference agenda. They were defeated. The only monetary matters that were seriously considered after the "stabilisation crisis" were silver and indebtedness. Even the main work of the Second Monetary Sub-Commission (the re-establishment of an international monetary standard) was virtually suspended. The discussions on silver were confined to means for raising the price of silver, while those on indebtedness ended with a resolution that emphasised the duty of debtors to meet their obligations as far as practicable.

* For a description of the respective attitudes of the three parties see p. 726.

Restriction

When default was inevitable, there should be recourse to direct discussions between debtors and creditors, but nothing should be done to impair confidence. No new ground was broken on this problem. Though a commencement was made in setting out the conditions of the successful working of an international gold standard, no progress was made in evolving monetary plans that would raise prices in the immediate future.

The Conference was thrown back on the work of the Economic Commission. But the discussions of three out of four of the sub-commissions, namely, those dealing with (a) commercial policy, (b) bounties and subsidies, etc., (c) export bonuses, marks of origin, etc., were also seriously affected by "the stabilisation crisis." It was argued that currency fluctuations prevented any agreement upon tariffs, subsidies and bounties. Currency depreciation would quickly upset policy on these matters, and effective international plans to deal with the many barriers to international trade could not be laid until the exchange value of currencies was stable. No doubt on these matters the experts gained more information. At least it may be said that those who came from overseas became much more apprehensive concerning both the evils of trade barriers and the possibility of their removal in the near future. In particular, the protective measures for European agriculture presented a depressing problem to the overseas countries. The finding of the Sub-Commission on Commercial Policy that "the need and urgency of reducing excessive customs tariffs were unanimously admitted" may, however, provide a basis upon which useful discussions may proceed later.

III. RESTRICTION

THERE remained the work of Sub-Commission III A of the Economic Commission. This sub-commission was charged with the task of dealing with the problem of

An Australian View of the World Conference

"the co-ordination of production and marketing." There was much enthusiasm for the work of this sub-commission among members of the gold bloc, and most other European nations, including the United Kingdom. Some overseas delegations, notably those of Cuba and Brazil, were also eager to secure an agreement on plans for regulating the supply of particular commodities. The sub-commission commenced its discussions on the conditions that should be observed in formulating co-ordinating schemes. In view of the importance attached at the Conference to the problem of co-ordinating production and marketing, these conditions as finally approved by the sub-commission and embodied in the Conference report are reproduced in the Appendix to this article. There was but one dissentient voice, that of Mr. Bruce, representing Australia. Later, when individual commodities came up for special consideration in sub-committees, the difficulties of working out satisfactory schemes became more and more apparent, and the Conference ended without reaching agreement on any scheme except that on silver. A scheme for silver, the cynics might say, was possible because it was worked out in the Monetary Commission untrammelled by any special conditions. Be it noted, however, that the silver agreement was confined to the release of stocks and the purchase of equivalent quantities by governments in certain producing countries. No control of annual production was envisaged.

The objective of the discussions on the co-ordination of production and marketing was "to restore the purchasing power of producers and consumers and thus to increase demand."* Detailed consideration of plans covered a wide range of commodities—dairy produce, sugar, wine, coffee, cocoa, timber, tin, coal and copper. At the same time discussions on wheat were proceeding outside the Conference. In reporting to the Conference the chairman of the sub-commission (M. le Breton) remarked that "within

* See clause 2 of the report of the Sub-Commission on the Co-ordination of Production and Marketing set out in the Appendix.

Restriction

the Conference such attempts (to organise special branches of production) are considered as so many parts of a concerted scheme intended to give fresh impetus to economic life." But there was no "concerted scheme" evolved at the Conference. Those who objected to plans for regulation of supply, notably Mr. Bruce on behalf of Australia, were prepared to enter into temporary arrangements for liquidating stocks of some commodities when stocks were a menace to the market. But even in these cases it was recognised that action was to be taken only as part of a general plan for raising prices and increasing general spending power. When it became evident that no general plan of this nature was possible, and that the main work of the Conference was the initiation of schemes for restriction (or, as advocates prefer to say, regulation) of production, Mr. Bruce was much more outspoken in his criticism. He deplored the concentration of effort upon this problem, contested the view that restriction schemes could raise general prices, and drew attention to the ensuing growth of "collectivism" that would follow a widespread adoption of regulation of production.

There is much in these criticisms that will find favour in all the Dominions, and in other overseas primary producing countries. That restriction schemes—and in present circumstances all plans for regulation are plans for restriction—cannot increase spending power and raise general prices is self-evident. They merely transfer spending power from one group of producers to another, and they may actually retard investment because the falling prices of unrestricted goods, and the unused capacity in industries producing restricted goods, offer little scope for new investment. Apart from the great practical difficulties of their operation, they offer small comfort to primary producing countries which have incurred heavy debts for the purpose of expanding their production. It was indeed a gospel of despair that these countries were asked to accept. With no prospects of monetary action

An Australian View of the World Conference

to increase spending power and raise prices, and no prospects of a reduction of the many barriers in the way of imports of foodstuffs and raw materials into European consuming countries, the overseas exporting countries were in effect asked to shoulder still more of the burdens of the economic crisis. Prices of many agricultural products in Europe are much higher than the prices in the exporting countries. Yet the latter with much more efficient production were to reduce output in order to bring world prices up to the uneconomic cost level of European agriculture.

To the Dominions it appeared regrettable that Great Britain should associate herself with these proposals, and at the same time shelter the gold currencies of countries which eagerly pressed for limitation of production and sternly refused to embark upon an expansionist banking policy. Great Britain made no effective protest against the gold bloc's ultimate veto on monetary discussions, and was unable to offer the Conference any evidence that action would be taken to develop an independent sterling policy, for which the Dominions were pressing. She showed much enthusiasm for restriction plans and little appreciation of the special difficulties that these plans would create in the Dominions. Her representatives at the Conference could plead that a rise in the world prices of primary products would assist the Dominions, but they overlooked the two-fold objection that the rise could be accomplished only by restriction of production in *the exporting countries*, and that high sheltered prices encouraging production in *the importing countries* would be maintained. It is true that the British policy was to stabilise domestic production, but this could not be said of other importing countries.

These differences in policy between the Dominions and the United Kingdom were acute, though they were rarely obtruded into the Conference. But for the moment Great Britain seemed to have slipped back into the position of a European country and to have linked herself with the

The Empire Declaration

gold bloc, which, under the leadership of France, had nothing to offer the Conference but an intensification of deflation. Perhaps under more favourable circumstances, with France less fearful of currency depreciation and America no longer apprehensive of stabilising the dollar, Great Britain will be able once again to assume her place of leadership in international monetary policy, and through the British Commonwealth of Nations to offer the world a plan that will mobilise the forces of recovery.

IV. THE EMPIRE DECLARATION

FORTUNATELY the discussions among the members of the Commonwealth of Nations during the Conference brought this end appreciably nearer. The declaration on monetary and economic policy issued by the Empire at the close of the Conference* indicates that on fundamental matters of monetary policy the interests of Great Britain and the overseas Dominions and India are identical. The declaration was noteworthy for its emphasis on monetary policy. It referred pointedly to the economic hindrances to rising prices and to the necessity for international action to remove these hindrances. Further, the members of the Empire expressed a keen desire that the reduction of tariffs within the Empire contemplated at Ottawa should be realised.

Of much greater importance is the monetary policy embodied in the declaration. To some extent it is in contrast to the attitude taken up by Great Britain during the critical days of the Conference. It is, however, consistent with the policy initiated at Ottawa and urged upon Great Britain by the Dominions during the Conference. In particular, the Dominions will welcome the sympathetic reference to recent United States policy as providing a favourable atmosphere in which the Ottawa monetary

* See Appendix II.

An Australian View of the World Conference

policy might bring about a rise in sterling prices. The definition of the price level to which sterling policy is directed will be not less pleasing to the overseas members of the Empire. "Any price level would be satisfactory which restores the normal activity of industry and employment, which ensures an economic return to the producer of primary commodities, and which harmonises the burden of debts and fixed charges with economic capacity." This is a comprehensive definition of the relief expected from the desired rise in prices—desired, that is, by debtor and primary producing countries. Of even greater importance is the assertion later in the declaration that "the United Kingdom Government has no commitments to other countries as regards the future management of sterling and retains complete freedom of action in this respect." This statement offers some guarantee that central bank policy will not be directed to maintaining stability of sterling with the franc or any other gold currency. Should sterling move further from gold, and, in doing so, raise prices of primary products and help to restore a balanced price structure in the Dominions, there will be less need for alterations in exchange rates for Dominion currencies based on sterling. The creation of a wide area of currency stability will be a valuable contribution towards economic recovery. Moreover, this policy should attract other countries, such as Scandinavia, Austria, the Far East and some of the South American republics, to enter the sterling area and maintain stability of exchange with sterling. There is, indeed, in the declaration an invitation to these countries to pursue a policy of stability with sterling, and thus to make possible "the attainment and maintenance of exchange stability over a still wider area."

References to public works expenditure in the declaration indicate perhaps some difference of opinion among the members of the Empire, and strengthen the view recently expressed by Mr. Runciman at the Conference that Great Britain does not intend to embark upon ambitious pro-

The Empire Declaration

grammes of public works. No doubt the Dominions are less concerned about this aspect of British monetary policy than they are about the freedom of sterling from any close ties with other currencies. From the point of view of the Dominions, too, the declaration will be highly satisfactory in another respect. There is no reference to co-ordination of production and marketing or to restriction schemes, for which British Ministers at the Conference had shown singular enthusiasm. It is true that Mr. Chamberlain, in his closing speech, referred to the Economic Commission as having done "very valuable work in the field of regulation and production." Committee work dealing with this aspect of economic policy will doubtless be continued during the recess. In the absence of general debate, there will be ample opportunity for nations which desire to pursue policies of restriction to test their principles by applying them to specific commodities. The Dominions would deplore concentration upon this aspect of the work in the subsequent discussions, as they deplored it in the discussions held during the Conference. They will feel, however, that British monetary policy is likely to be more constructive than was at first thought possible. Provided that the policy so satisfactorily enunciated is put into practical effect, the Dominions will feel much more disposed to accept some measure of regulation, as part of a co-ordinated plan of economic recovery through a rise in prices. The declaration by the British Commonwealth of Nations thus provides a basis upon which the work of the Monetary and Economic Conference may be continued with hope of success. For the Empire, furthermore, the declaration removes misunderstandings on high policy that were seriously prejudicing discussions on the Ottawa agreements.

London.

July 29, 1933.

An Australian View of the World Conference

APPENDIX I

RESTRICTION OF PRODUCTION

*(Part of the Report of the Sub-Commission on the Co-ordination of Production and Marketing.)**

The sub-commission had before it a proposal by the French delegation which had asked the Conference to examine the possibility of agreements between Governments on certain products for which the intervention of the latter appeared to be necessary.

It was therefore confronted with a vast plan of action and, in order to prepare the ground, it was anxious to begin by a discussion of the general principles which should govern the agreements to be concluded with a view to a readjustment of supply and demand. Extreme caution is necessary in regard to such matters: any mistake in application might bring about the opposite results to those desired.

A plan submitted by the United Kingdom delegation defined the conditions which all schemes of this nature should fulfil, all of them resting on the fundamental idea of the necessity of obtaining a carefully balanced proportion. It was exhaustively discussed and the sub-commission, taking into account the observations made by various delegations, arrived at the following test, which in view of its importance is reproduced in full:

1. In order to assist in the restoration of world prosperity, it is essential to increase the purchasing power of the producers of primary products by raising the wholesale prices of such products to a reasonable level.

2. In the exceptional conditions of the present world crisis, concerted action is required for this purpose. Apart from any other measures that may be taken to restore the purchasing power of producers and consumers and thus to increase demand, it is desirable that plans should be adopted for co-ordinating the production and marketing of certain commodities.

3. Any agreements to give effect to such plans should conform generally to the following conditions:—

- (a) The commodity must be one of great importance for international trade in which there is such an excess of production or stocks as to call for special concerted action.

- (b) The agreement should be comprehensive as regards the commodities to be regulated, that is, it should not be so narrowly

* League of Nations, C. 435, M. 220, 1933, II. (Report of the Bureau to the Conference, July 27, 1933.)

Appendix

drawn as to exclude related or substitute products, if their inclusion is necessary or desirable to ensure the success of the plan.

(c) It should be comprehensive as regards producers, that is :

(i) it should in the first instance command a general measure of assent amongst exporting countries, and within these countries a substantial majority of the producers themselves :

(ii) where necessary or desirable for the success of the plan, it should provide for the co-operation of non-exporting countries whose production is considerable.

(d) It should be fair to all parties, both producers and consumers, it should be designed to secure and maintain a fair and remunerative price level, it should not aim at discriminating against a particular country, and it should as far as possible be worked with the willing co-operation of consuming interests in importing countries who are equally concerned with producers in the maintenance of regular supplies at fair and stable prices.

(e) It should be administratively practicable, that is, the machinery established for its administration must be workable, and the individual Governments concerned must have the power and the will to enforce it in their respective territories.

(f) It should be of adequate duration, that is, it should contain provisions for its continuance for such a period as to give assurance to all concerned that its objects can be achieved.

(g) It should be flexible, that is, the plan should be such as to permit of and provide for the prompt and orderly expansion of supply to meet improvement in demand.

(h) Due regard should be had in each country to the desirability of encouraging efficient production.

APPENDIX II

THE EMPIRE DECLARATION

The following declaration was issued on July 27 over the signatures of Mr. Neville Chamberlain (United Kingdom), Mr. R. B. Bennett (Canada), Mr. S. M. Bruce (Australia), Mr. G. W. Forbes (New Zealand), General J. C. Smuts (South Africa), and Sir Henry Strakosch (India). The declaration was not signed by the representative of the Irish Free State, who referred the matter to his Government.

1. Now that the World Economic and Monetary Conference has adjourned, the undersigned delegations of the British Commonwealth consider it appropriate to put on record their views on some of the more important matters of financial and monetary policy which were raised, but not decided, at the Conference. During the course of the Conference they have had the opportunity of consulting

An Australian View of the World Conference

together and reviewing, in the light of present-day conditions, the conclusions arrived at at their meeting at Ottawa a year ago, in so far as they had reference to the issues before the Conference.

ECONOMIC POLICY

2. The undersigned delegations are satisfied that the Ottawa Agreements have already had beneficial effects on many branches of inter-Imperial trade and that this process is likely to continue as the purchasing power of the various countries concerned increases. While there has not yet been sufficient time to give full effect to the various agreements made, they are convinced that the general principles agreed upon are sound. The undersigned delegations reaffirm their conviction that the lowering or removal of barriers between the countries of the Empire provided for in the Ottawa Agreements will not only facilitate the flow of goods between them, but will stimulate and increase the trade of the world.

3. The delegations now desire to draw attention to the principles of monetary and financial policy which have emerged from the work of both the Ottawa and World Conferences, and which are of the utmost importance for the countries within the British Commonwealth. The following paragraphs embody their views as to the principles of policy which they consider desirable for their countries.

MONETARY AND FINANCIAL POLICY

I. PRICE LEVELS

4. At the Ottawa Conference the Governments represented declared their view that a rise throughout the world in the general level of wholesale prices was in the highest degree desirable, and stated that they were anxious to co-operate with other nations in any practicable measures for raising wholesale prices. They agreed that a rise in prices could not be effected by monetary action alone, since various other factors which combined to bring about the present depression must also be modified or removed before a remedy is assured.

It was indicated that international action would be needed to remove the various non-monetary factors which were depressing the level of prices.

In the monetary sphere the primary line of action towards a rise in prices was stated to be the creation and maintenance within the limits of sound finance of such conditions as would assist in the revival of enterprise and trade, including low rates of interest and an abundance of short-term money. The inflationary creation of additional means of payment to finance public expenditure was deprecated, and an orderly monetary policy was demanded with safeguards to limit the scope of violent speculative movements of commodities and securities.

Appendix

5. Since then the policy of the British Commonwealth has been directed to raising prices. The undersigned delegations note with satisfaction that this policy has been attended with an encouraging measure of success. For some months indeed it had to encounter obstacles arising from the continuance of a downward trend of gold prices, and during that period the results achieved were in the main limited to raising prices in Empire currencies relatively to gold prices. In the last few months the persistent adherence of the United Kingdom to the policy of cheap and plentiful money has been increasingly effective under the more favourable conditions that have been created for the time being by the change of policy of the United States, and by the halt in the fall of gold prices.

Taking the whole period from June 29, 1932, just before the assembly of the Ottawa Conference, a rise in sterling wholesale prices had taken place of 12 per cent. according to the *Economist* index. The rise in the sterling prices of primary products during the same period has been much more substantial, being in the neighbourhood of 20 per cent.

6. The undersigned delegations are of opinion that the views they expressed at Ottawa as to the necessity of a rise in the price level still hold good, and that it is of the greatest importance that this rise which has begun should continue. As to the ultimate level to be aimed at they do not consider it practicable to state this in precise terms. Any price level would be satisfactory which restores the normal activity of industry and employment, which ensures an economic return to the producer of primary commodities, and which harmonises the burden of debts and fixed charges with economic capacity. It is important that the rise in prices should not be carried to such a pitch as to produce an inflated scale of profits and threaten a disturbance of equilibrium in the opposite direction. They therefore consider that the Governments of the British Commonwealth should persist by all means in their power, whether monetary or economic, within the limits of sound finance in the policy of furthering the rise in wholesale prices until there is evidence that equilibrium has been re-established, and that thereupon they should take whatever measures are possible to stabilise the position thus attained.

7. With reference to the proposal which has been made from time to time for the expansion of Government programmes of capital outlay, the British Commonwealth delegations consider that this is a matter which must be dealt with by each Government in the light of its own experience and of its own conditions.

II. EXCHANGE STABILITY

8. The Ottawa Conference declared that the ultimate aim of monetary policy must be the restoration of a satisfactory international monetary standard, having in mind, not merely stable exchange rates

An Australian View of the World Conference

between all countries, but the deliberate management of the international standard in such a manner as to ensure the smooth and efficient working of international trade and finance. The principal conditions precedent to the re-establishment of any international monetary standard were stated, particularly a rise in the general level of commodity prices in the various countries to a height more in keeping with the level of costs, including the burden of debts and other fixed and semi-fixed charges, and the Conference expressed its sense of the importance of securing and maintaining international co-operation with a view to avoiding, so far as may be found practicable, wide fluctuations in the purchasing power of the standard of value.

9. The undersigned delegations now reaffirm their view that the ultimate aim of monetary policy should be the restoration of a satisfactory international gold standard under which international co-operation would be secured and maintained with a view to avoiding, so far as may be found practicable, undue fluctuations in the purchasing power of gold. The problem with which the world is faced is to reconcile the stability of exchange rates with a reasonable measure of stability, not merely in the price level of a particular country, but in world prices. Effective action in this matter must largely depend on international co-operation, and in any further sessions of the World Economic and Monetary Conference this subject must have special prominence.

10. In the meantime the undersigned delegations recognise the importance of stability of exchange rates between the countries of the Empire in the interests of trade. This objective will be constantly kept in mind in determining their monetary policy, and its achievement will be aided by the pursuit of a common policy of raising price levels. Inter-Imperial stability of exchange rates is facilitated by the fact that the United Kingdom Government has no commitments to other countries as regards the future management of sterling and retains complete freedom of action in this respect. The adherence of other countries to a policy on similar lines would make possible the attainment and maintenance of exchange stability over a still wider area.

11. Among the factors working for the economic recovery of the countries of the Commonwealth, special importance attaches to the decline in the rate of interest on long-term loans. The undersigned delegations note with satisfaction the progress which has been made in that direction as well as in the resumption of oversea lending by the London market. They agree that further advances on these lines will be beneficial as and when they can be made.

12. The undersigned delegations have agreed that they will recommend their Governments to consult with one another from time to time on monetary and economic policy with a view to establishing their common purpose and to the framing of such measures as may conduce towards its achievement.

CAPITALISM AND COMMUNISM

I.

CAPITALISM and communism are convenient names for two different systems of economic life. The first is based on the idea of competition between individuals both in the production and distribution of goods, with rewards varying according to success. The second is based on the idea of co-operation between all members of the community in the production and distribution of goods, with rewards divided equally among them.

The distinction goes back to the earliest times of human history and indeed beyond. The commonwealth of the bees, as far as we can understand it, is an almost perfect case of communism. Lions on the other hand live on the individualist system which is the foundation of capitalism. Mankind in its savage state shows rudimentary examples of both kinds of organisation. But those sections of it which followed communism have remained savage through the ages. The development of what is called civilisation has been carried out by peoples organised on the individualist system.

Up to a hundred years ago the economic side of life was not foremost in men's minds. In the matter of production and distribution of goods men lived mainly by routine and custom. For the most part they lived hardly. But the processes of production and distribution both received a great impetus from the discovery of steam. Later on this was accelerated by other inventions; until now it may be said that man is, or can be, victorious in the long struggle to wrest the materials of subsistence and comfort from a reluctant earth.

This development of material wealth took place under the capitalist system and was naturally considered as its fruit. The system itself was expanded and refined from the elementary stage in which it had hitherto existed into the complex organism that we know. A gospel was

Capitalism and Communism

written for it by the political economists of the nineteenth century. But the propagation of this gospel soon raised heretics. The glaring inequalities in the distribution of wealth and comfort which followed on the application of the doctrine of competition in an undiluted form were disturbing to the minds of many thinkers. A counter-doctrine began to be formulated and preached. It took several shapes, but the purest is that which we call the theory of communism.

II.

FOR several generations communism remained only a theory as far as the civilised world was concerned. Capitalism held the field in practice. But within the last fifteen years communism has been adopted as a working system by a great nation—the greatest in the world in point of territory, the second greatest in point of population. Up to the present it can only be regarded as an experiment which is still going on. We do not yet know whether it will be able to sustain itself against the individualist tendencies which are present to a greater or less extent in most races of men. Nor do we yet know whether it will succeed in maintaining or improving material comfort among the people who follow it. The great objection which has always been urged against communism—or against any form of State socialism—on its economic side is that the production of material wealth, on which the comfort of the people depends, will be checked and even recede if the incentive of competition and of reward proportioned according to success is removed. The result of such minor experiments in State socialism as have been made by other countries have tended to support this objection. But these experiments have only been partial. Russia is the first example of communism on a grand scale, and we cannot yet tell how it is going to turn out on the economic side. While observers differ, this much seems to be certain. Firstly that the standard of luxurious living which was

Capitalism and Communism

enjoyed by a small number in Russia under the former system—as it is by the rich in all countries—has entirely disappeared. Secondly, that the standard of material comfort among the mass of the population in Russia is still lower than it is in nearly all western countries. On the other hand it is contended that this was always the case and that the living standard of 90 per cent. of the Russian population was lower still under the old system ; in other words that some improvement has already taken place and that this is continuing. It is on the extent of this improvement and the probability of its continuance that observers differ.

On the side of production, therefore, all that can be said is that the theoretic arguments are against communism and that in practice it has not yet proved itself. On the side of distribution communism has a stronger case. The difficulty, which at present besets capitalist nations, of getting goods into consumption after they have been produced, does not appear to exist in Russia, and in theory at any rate would appear unlikely to arise under their system. Work is found for all, and all have their share of the goods produced whatever they may be.

III.

LET us turn now to the economic results of the old-established capitalist system as they appear at present. The best example to take is the United States of America. In that country the capitalist system might be expected to reach its highest development. The great extent and natural richness of the country ; its freedom from foreign complications or the danger of them ; the numbers and vigour and diversity of its population ; their aptitude for manufacture and trade ; all these are favourable conditions. Working in these surroundings the capitalist system should be, if anywhere, a success. And, in fact, it did succeed in the United States in establishing, not only a high standard of luxurious living for an unusually large minority, but also

Capitalism and Communism

a level of material well-being and comfort for the mass of its people which has never been reached elsewhere since the world began.

Taking the United States as it stood in 1929, it might have been said that as far as production is concerned capitalism had proved its case. It had shown that it was capable of taking advantage of all the discoveries which have given man a complete mastery over nature for the purpose of producing the materials of subsistence and comfort and adornment. It had shown that it could increase these materials easily, rapidly, and almost without limit. The United States might have been pointed to at that time as a shining example of the success of capitalism.

But a little later the picture was entirely changed. Prosperity had given way to depression. Three years after it had been boasted that poverty had been definitely abolished in the United States a considerable part of the population was living on public or private charity. There is no general agreement about the causes of the change. But this much is certain; that the fault must either have been in the system itself or in those who controlled it. It cannot be imputed to natural and unavoidable causes. In history there have been periods of poverty and distress in different parts of the earth by reason of flood or famine or war or pestilence, which have destroyed or impaired the means of production. There was no such cause here. The productive capacity of the world in general and of the United States in particular, if it was impaired by the Great War, had long since been restored and stood at a higher point than ever before. The capacity to produce goods was there. It was the ability to distribute them that seemed to be lacking.

IV.

ONE excuse which has been given for the change in the United States is that the poverty of the outside world made it unable to buy American goods or to give anything

Capitalism and Communism

in exchange, and that the fall in prosperity was thus caused by the falling off in foreign trade. But this excuse will not bear examination. In the first place, the productive capacity of foreign countries was not impaired any more than that of the United States. They were still able and willing to supply in superabundance any of the goods and material; which the United States could not supply for itself, and to take American products in exchange.

In the second place, if we examine the figures of trade between the United States and foreign countries we shall find that in the nine years 1922 to 1930 inclusive the balance in favour of the United States was 6,477 million dollars; in other words during those nine years the United States sold to foreign nations more goods than it bought from them to the extent of 6½ billion dollars.

But during the same nine years foreign bond and share issues subscribed in the United States totalled 8,875 million dollars. For these issues the United States took pieces of paper which, whatever their future value, were certainly of no use for consumption. The people of the United States could not use them for food or for building houses or as a material of manufacture.

It follows from this that the excess exports of the United States during the period of prosperity did not play any part in supplying its population with the necessities or luxuries of life. They were merely a surplus which the United States exchanged for an acknowledgment of indebtedness, not for any articles of present use. The American people maintained their living standard during these years on what they produced themselves plus a certain amount of foreign produce for which they gave goods in exchange. They had still a surplus of their own products which they sent abroad, taking paper in exchange. The shrinkage or even the entire disappearance of these surplus exports, however it might affect the living standard of other nations, which had got consumable goods in exchange for

Capitalism and Communism

paper, should not directly affect the living standard of the nation which had merely got paper for goods.

V.

ANOTHER explanation which has been offered is that during the good years the United States was living on its capital. This explanation also is plainly untenable. A nation can live on its capital in three ways. Firstly, if it owns a great volume of foreign investments, it may gradually realise the principal of these, drawing it back in the form of goods and using these goods to maintain the living standard of its people. It was alleged, and it may be true, that Great Britain entered on this course or was in danger of entering on it a short time ago.

Secondly it can borrow abroad, again taking the proceeds in the form of goods and using these for immediate consumption to maintain or improve its standard of living, instead of for reproductive purposes. To do this is in a sense to live on capital. This was the process which, for instance, brought about the difficulties of Australia.

There is a third way in which a nation can live on its capital. That is by allowing its fixed plant and equipment to run down and using too much of what it produces for keeping up its standard of living and too little for what may be called maintenance and repairs. If this is done the time naturally comes when a larger part of the national production has to be devoted to making good the work which has been neglected, and there is less left for day to day consumption.

But certainly the United States did not in its years of prosperity live on its capital in any of these three senses. It was not reducing its foreign investments but on the contrary was increasing them. It was not borrowing abroad. Nor was it allowing its fixed plant and equipment to run down but, on the contrary, was extending and improving it on an enormous scale. Not only manu-

Capitalism and Communism

facturing plants and machinery but also houses and buildings of every kind, roads and all sorts of public works were improved and added to in every direction.

VI.

WE had then this position in the United States at the beginning of this year. Productive capacity had not been impaired : yet production had been cut down. This was not because the wants of the people were fully supplied ; for the vast majority of the people were denying themselves something, and many were suffering actual distress. The automobile factories were idle because the farmer could not afford automobiles ; the farmers were destroying food because the factory workers could not buy it. Evidently the machinery set up by capitalism for the exchange of goods had broken down. Capitalism, it may be, had solved the problem of production ; it had failed to solve that of distribution. And the failure was spectacular. For it did not arise out of the old problem of the few getting too much and the many getting too little. In this case there was plenty for all. But though they could produce the goods they could not get them into consumption.

Such a failure may not prove fatal to capitalism so long as it can allege that the rival system of communism fails in production. For production comes first. It is no good having a perfect system for distributing goods if you do not produce enough to go round. But if communism in Russia should show itself able—it has not done so up to now—to produce goods as abundantly or nearly as abundantly as capitalism, then capitalism will be in danger unless in the meantime it can remedy its present liability to break down in the matter of distribution. For on the economic side it will then appear definitely inferior to communism. There are many reasons other than economic for preferring individualism to communism. But it is to be feared that these will weigh little if the majority once

Capitalism and Communism

come to believe that they will be better off, materially speaking, under a communist than under a capitalist régime.

VII.

LET us now consider the probable working of the two rival systems in relation to some major economic problems. The first of these is that of international trade. The original individualist gospel applied its dogma of unrestricted competition to this sphere as well as to others. It held that the trade of goods between one country and another was wholly desirable and should be subject to no restriction. This was the doctrine of free trade. Its argument was that relative cheapness of production should determine where goods should be produced, and that this would happen if no barriers were set up in the way of tariffs.

This theory has broken down in practice because it does not take into account the impracticability of shifting labour and capital from one industry to another, or indeed any other factors in the unemployment problem. The free trade doctrinaire will reply that the issue does not arise in this connection because, lending and borrowing aside, exports will always balance imports. But, as things work out in practice, this truism does not justify—given the existence of nations as separate entities—the assumption that the employment of a labourer in Lyons is as good as the employment of a labourer in Manchester, and that the employment of a labourer in Shanghai is as good as either. It is not true, from the point of view of a nation regarded by itself, that the development of an industry somewhere else compensates for the decay of an industry at home, or that the employment of its own citizens in production is no more beneficial than the employment of the citizens of some other country. Consequently the doctrine of free trade has made little headway except in countries like Great Britain, to whose peculiar circumstances

Capitalism and Communism

it happened to be suited. Nor is it likely to be generally adopted so long as nationalism subsists.

There is no reason to suppose that the barriers in the way of international trade would disappear or be lessened in a world organised on a communist instead of on a capitalist basis—assuming, that is, that separate nationalities remained. Each nation would still regard its own interest as coming first, and, as far as its natural resources put it in a position to become self-sufficing, it would desire to use them for that purpose. Russia has shown no inclination to turn to the production of food-stuffs and raw materials, and to leave the supply of manufactured goods to nations whose factories are already at work. On the contrary she has started to build up industries of every kind with the avowed intention of supplying all the wants of her people for every kind of product. If the communist system were universal, international exchange of goods would no doubt still be carried on, but it would be governed by tariffs and quotas and so forth to at least as great an extent as it is now and probably more so. It would be carried on not by individuals but by government organisations and would be largely a matter of bargain and barter. For example, Russia might offer to take so much rubber from Malaya or the Dutch East Indies provided they took a corresponding value of Russian products—wheat or timber or oil. But assuming that her own factories were developed she would not take sewing machines from America or electrical machinery from Great Britain on any terms at all. The doctrine of free trade, namely, that products of all kinds should compete in all markets, would be still less likely to be carried out or even to be professed than it is to-day.

VIII.

BUT even if the doctrine of protection still held, it might be applied with more moderation than at present. Under the individualist system there are always individuals

Capitalism and Communism

ready to start a new industry, however unsuited to the conditions of the country, if they can get sufficient protection in the way of tariff. And often they can. The result is that a great deal of the world's production is done on uneconomic lines. The area of Europe excluding Russia is less than that of the United States. It is divided into twenty-four different countries, the trade between which is restricted by tariffs based on the principle of protecting national production. Let any American imagine a situation in the United States where the State of New York tried to produce all its own food-stuffs and the State of Wyoming all its own manufactures and other States similarly, and where inter-State tariffs were set up to bring about this result. How far would the economic progress of the United States have gone under such conditions?

The truth is that the doctrine of individualism and the doctrine of protection are mutually contradictory. They belong to different lines of thought. Individualism logically calls for free trade. Protection logically calls for government control of international if not of internal trade. And it may be that the logic of facts, more powerful than that of ideas, will ultimately force this conclusion on the world. The growing disruption of international trade through tariffs, and even more through the difficulties of monetary exchange, acts in this direction. The appearance on the scene of a communist nation, conducting its international trade on communist principles, tends the same way. It is already beginning to be recognized that individual traders cannot compete in the international field with a government institution like the Russian *Amtorg*,* which has not to consider questions of profit and loss. If the Russian surplus available for export grows into great dimensions, Amtorg will be able to ruin all its individual competitors. Other countries will either have to refuse to trade with Russia at all or will have to

* Amtorg is the official corporation which carries on trade with America in everything except cotton and wool.

Capitalism and Communism

conduct their trade with Russia through some organization similar to Amtorg. If they do the latter, but not otherwise, they will be able to protect their home markets against demoralization by price cutting, and will also be able to drive a bargain to the effect that if they buy from Russia, Russia will buy from them. As long as they carry on their international trade on the individualist system while Russia carries on hers on the communist system they can do neither of these things effectively.

If this practice were once begun it would spread and international trade would become a kind of glorified barter between the amtorgs of different nations.

In such an event, while the doctrines of national self-sufficiency and the development of national production would still prevail, their application might be tempered by economic expediency. One amtorg might make a long-term bargain with another to supply, let us say, a certain amount of food-stuffs or raw materials in exchange for a certain amount of manufactured goods, or some class of manufactured goods in exchange for another, or some class of raw material in exchange for another, instead of all countries trying to produce the same things at the same time. Whether the advantage resulting from the ability to make bargains of this sort would balance the disadvantages which might be expected from the disappearance of the competitive spirit in international trade is another question.

IX.

THE second problem which we may consider is that of international loans. Under the individualist system capital for the development of backward countries has been supplied by private investors in the developed countries, that is countries which have a surplus production beyond their own needs for immediate consumption. There has been little plan or order in the lending. When savings are plentiful in the lending countries loans are

Capitalism and Communism

offered freely without much regard to the question of their productive employment. They may be productively applied, but there is no direction in the matter. Trade depression comes, savings fall off, the lending stops. Then the borrower, like a private trader whose bank has stopped supplies, is often unable to fulfil his obligations, even if he has not wasted the money lent but has employed it productively. The lenders become naturally unwilling to lend any more on any reasonable terms even if their power to lend revives. The whole process of using the resources of advanced countries to develop those of backward ones is checked.

If the world were divided into communist States there would be no such thing as private investment. All international lending would be by government to government. The country having a surplus would have to determine in the first place whether it would be more advantageous to divide it amongst its own population or to lend it abroad. It might be that the surplus production would be of such a nature that there would be no particular benefit in using it at home. For instance the United States might have a great surplus capacity for producing steel rails and railway equipment. It could use this to build more railways at home or to build them abroad. But it might need no more railways at home. In that case the United States would have to determine whether it was better to let its surplus productive capacity in this direction lie idle—assuming the capacity could not be diverted to another line of production—and so give its population more leisure, or, as an alternative, to employ the surplus production abroad in the hope of getting some future return on it. The decision would not be governed, as at present, by the belief of private investors that the borrowing country would be able to pay a certain rate of interest (generally too high) on the capital lent. It would be governed by the decision of the lending country as to whether it would be more desirable not to turn out the

Capitalism and Communism

surplus production at all or to turn it out and use it abroad in the hope of some future return.

Under such a system the actual business of international loans would probably be carried out more rationally and with fewer disappointments than at present. But here again two questions arise. Firstly, whether, the stimulus of competition being removed, surplus production in any country would be likely to accumulate as fast as it has done under the individualist system, conditions being favourable. Secondly, whether governments which had a surplus at their disposal would be likely to use it for the immediate benefit of other nations, on the uncertain prospect of a future return, instead of for the more popular purpose of increasing the immediate amenities or leisure of their own people. It may well be that the misguided faith of the private investor, which is the governing factor under the present system, has resulted in a greater amount of capital being applied to the development of backward countries—and thus ultimately in a greater increase of the world's productiveness as a whole—than would have come from a more rational system from which the motive of private gain was absent.

Moreover, there is no reason why the capitalist system should not improve its present methods of international lending, possibly to such an extent as would remove many of the disadvantages under which they now lie. To do so would require an organisation for international borrowing and lending quite different from any which exists to-day. The business in each lending country would have to be centralised, and some measure of co-operation would have to be introduced between the different lending countries, *i.e.*, those having a surplus production.

X.

THE third problem is that of the over-production of one class of materials or goods as compared with other classes. The theory of the individualist doctrine is

Capitalism and Communism

that this is always corrected by the working of supply and demand. When the supply of any article exceeds the demand for it, say the orthodox political economists, its price falls. Its production becomes unprofitable, and capital and labour give up producing it and turn to some other field until the supply is so reduced that the price rises again.

This theory sounds rational. But experience has shown that in many cases it does not work out in practice, or at any rate only works out slowly and imperfectly and with a great deal of friction and loss. This is especially so in the case of raw materials. Take rubber as an example. In the period immediately after the war the supply of rubber had for the time being outstripped the demand, and the price fell to about 6d. a pound. The rubber companies declared that they could not live and earn even a modest return on the capital invested unless an average price of 1s. 6d. a pound could be obtained. A scheme for restricting production was formulated and applied to the British East Asian territories, which were then responsible for the greater part of the output. The price thereupon began to rise and soon reached the figure of 1s. 6d. a pound. But it did not stop there. The growth of the automobile industry, particularly in the United States, caused an increase in demand for rubber concurrently with the restriction of output, and the price at one time went as high as 4s. a pound, although the restriction had in the meantime been removed. The rise in price led to greatly increased production in the Dutch East Indies, which had refused to take any part in the restriction scheme. Supply soon became greater than demand; the price of rubber fell again rapidly, and has for some years been lower than ever before, having at one time gone to less than 2d. a pound. Although at this price the majority of the plantations must be working at a loss, there does not seem to be any marked falling off in production. Many planters, no doubt, go on because the only alternative is to abandon their pro-

Capitalism and Communism

perties altogether, since to maintain them in a non-producing condition would cost more than the loss on working. Another factor in the situation is that much of the production is in the hands of native growers who will work for any return they can get, and take no account of return on capital, or even of wage costs, since they do the work themselves.

Putting the annual rubber production of the world at about 700,000 tons, the rubber growers, when the price was 1s. 6d., received £105 million sterling for their product. At present they receive about one-ninth of this, say, between £11 and £12 million. They are £93 million a year worse off. It may be answered that the makers of automobile tires and other consumers of rubber are £93 million better off, and so on balance there is no disadvantage. But that is not a complete statement of the case. When the rubber growers received £105 million they had that amount of purchasing power. Their power of consuming goods has been cut down accordingly. Eventually no doubt the production of rubber will be decreased and the price rise to some extent. But if the production of rubber is diverted from the European to the native grower, as seems likely, it will mean that whatever purchasing power is represented by the sale of rubber will be transferred from a class of people who consume European goods to a class of people who consume practically nothing but what they produce themselves.

What has happened in the case of rubber has happened with variations in the case of many other raw materials and primary products. The price has fallen to a point which leaves the producers little or no purchasing power for anything beyond the bare materials of subsistence. This reacts on the manufacturing and other industries which previously supplied them. In the result, there is not only a diminution in the production of the raw material which was being produced in excess, but also a corresponding diminution in the production of manufactured goods

Capitalism and Communism

for which there is an almost unlimited capacity of consumption. The growers of raw materials would like to consume manufactured goods, but cannot because they have not the purchasing power. The manufacturers in turn, as their sales fall off, have to reduce the numbers or the wages of their employees. They cannot cut down very much on their overhead or fixed charges. Through the diminished purchasing power of the workers the general demand for goods is again reduced. In the end production is cut down all round, which means that the standard of material comfort is lowered.

XI.

WHAT would happen under the communist system ? In this case money values do not enter into the matter. The whole production of rubber, for example, would be distributed *pro rata* among the users. On the other hand, the rubber producers would receive their own *pro rata* share of whatever other goods were produced. They would not be liable to have their power of consuming other goods cut down if they produced more rubber than was required, for as long as other goods were produced they would get their share of them. The worst that could happen would be that the quantity of rubber produced in excess of that which could be used would be wasted. Presumably in such a case the directing body of a communist State would call off a certain number of its rubber growers and put them to some other work. In theory, at any rate, overproduction of any article would be less likely to take place than at present, since production would be made according to plan and on an estimate of the requirements. When it was apparent that these were filled production would be stopped. Under the individualist system production is not determined on any plan but by an estimate of the profits to be obtained. When these estimates are faulty—as they often are—the producers suffer. Then

Capitalism and Communism

their consuming power disappears and the production of other goods suffers also.

Thus the communist system would appear to have an advantage in dealing with the maladjustment of production and consumption which is one of the chief diseases of the capitalist system as it is worked at present. On the other hand, it may be questioned whether high production would be reached when the motive of industrial gain was removed. Here as elsewhere we come back to the position that the communist system seems to have the advantage over the capitalist system, as the latter is worked at present, in the matter of getting goods into consumption. On the other hand, the capitalist system has proved its capacity for increasing production and the communist system has not. The overproduction of goods under capitalism is mainly caused by its incapacity for getting the goods produced into consumption. On the communist system goods could be consumed as fast as they were produced, but it is not certain that they would be produced.

XII.

LAST of all comes the monetary problem. Under the capitalist system money rules everything in the economic sphere. Production is governed by profits; profits by prices; and prices by purchasing power, *i.e.*, the volume of money. The distribution of goods again is regulated by the distribution of money. And money decides whether a capacity for increased production, arising out of improvement in machinery and methods, shall be applied to the purpose of increasing the machinery of production still further, or to the purpose of adding to the immediate comforts and amenities of the people, or shall not be used at all, but simply run to waste.

It is evident from the recent example of the United States that capitalism has so far failed to solve the monetary problem. Money, which was devised as a convenient means

Capitalism and Communism

of facilitating the exchange of goods, has become the master instead of the servant of production and distribution.

The creation of money was originally the prerogative of governments. It is still so in name. But, in fact, under the capitalist régime this prerogative has been transferred to the banks through the development of the credit system. Under this system the exchange of goods is mainly carried out not by the actual transfer of money but through entries in bank ledgers. And banks have been either unable or unwilling to regulate the flow of money in accordance with the flow of production.

A properly regulated monetary system would aim, generally speaking, at securing stability of prices, since this is necessary for steadiness in the production and distribution of goods. No system could altogether prevent price fluctuation in the case of particular classes of goods, of which there might be a temporary dearth or glut. But in the general price level it would aim at stability by varying the supply of money in accordance with the amount of business to be done.

In certain circumstances it might aim at a gradual rise of prices as a corrective to the tendency of capital to demand and obtain a higher return than its employment actually earns. This tendency seems to be inherent in the capitalist system. It arises perhaps from the natural optimism of mankind. It leads from time to time to capital absorbing as the rent for its use too great a share of production, and this can only be corrected by an increase in the price level of goods.

The banks of the United States did maintain a comparative stability of prices for a few years by creating a huge volume of new credit money. But when confidence was shaken they proceeded to destroy this credit money as rapidly as they had created it, with the result that prices fell disastrously, and both production and consumption were checked to a degree without precedent.

This may not have been wholly the fault of the banks.

Capitalism and Communism

The power of creating legal tender money is one of the few things in this sphere which has been retained by Government. The banks, being without this power, can only create money by the aid of public confidence which accepts their credits as good. During the years that the banks were expanding these credits the Federal Government and the Federal Reserve System were avowedly pursuing a policy of deflation, that is, they were endeavouring to decrease the volume of money. They could not prevent the banks from enlarging the volume of credit money, but they could and did prevent any enlargement of the volume of legal tender money which credit money represents and has for its basis. When public confidence was once shaken, the banks for their own protection were obliged to call in and destroy the greater part of the credit money they had created, there being only a small foundation of real money behind it.

But, however the blame may be distributed, the fact remains that there was a breakdown of the monetary system which resulted in an enormous decrease of purchasing power in the United States and in the consequent restriction of both production and consumption on a disastrous scale.

Under the communist system, production takes place without reference to profit, and distribution takes place without reference to purchasing power. Consequently under communism a monetary system, if it exists at all, will only occupy a subordinate place in the economic sphere and will have little influence on production and distribution. A failure in the working of the monetary system either would not happen in a communist State, or if it happened would not be of importance. Capitalism, on the other hand, cannot do without a fully developed monetary system, as it is by this mechanism only that the apportioning of material reward to success in production, which lies at the basis of capitalism, can be carried out at all. Mr. Ford has shown that he can make more and cheaper automobiles than almost anyone else. He could not get

Capitalism and Communism

the reward for this if he had to exchange them forthwith into other goods and could not convert them into terms of money. Under capitalism a failure of the monetary system disorganises the whole machinery. It remains to be seen whether such failures can be avoided in future or whether capitalism necessarily involves a succession of monetary crises which set back the process of increasing material well-being which is the whole purpose of economic life; just as it remains to be seen whether communism can get rid of the handicap which the absence of the motive of individual gain imposes on its efforts to increase production. Whichever system is the first to overcome its existing drawbacks will have a great advantage over the other in the minds of the mass of the people to whom the satisfaction of their material needs is, and for a long time must remain, the first consideration.

Those of us who believe that individualism is preferable to communism on other than economic grounds must hope that it will be the first successfully to surmount its obstacles in the economic race.

For this reason we must watch with an anxious interest the bold efforts that the present Government of the United States is making to cure the economic evils which have distressed that country during the last four years. To many these efforts seem to be a shocking departure from the most cherished tenets of the individualist capitalist system, as they have been preached in the past. But reform is better than revolution, and if the new policy succeeds the world in general will not worry whether it is orthodox or not. In that case the present economic system of the Western World—excluding Russia—will gain a new lease of life, and its rulers will have the time, if they have the inclination, to devote some thought to the problem of avoiding future breakdowns. If, on the other hand, the new policy fails and the doctrine of *laissez-faire* resumes its reign, the individualist capitalist system may continue to exist, but it will do so on a precarious tenure, and it may be doubted if it will be for long.

INDIA : MR. GANDHI AGAIN

DURING the period covered by the last article, political interest affecting India might be described as concentrated rather than dispersed, general rather than individual, and centred in England rather than in India. The White Paper and its proposals, first in speculation, then in realisation and discussion, lay in the foreground and served as a focus for argument, anticipation and condemnation alike. It may seem that the period now under review offers a total change, with the early entry of a familiar individual figure on the stage and his more or less constant presence near the footlights, a great variety of incident, and in general a play of interest widely diversified, not to say kaleidoscopic. Actually, however, the connection between the two is organic and close. The latest Gandhian ebullience, the Congress fissures, the newspaper kites, cannot be regarded in true perspective apart from the White Paper. It may be said that the latter has receded from the foreground. True, but only to swell into a background against which all later incident must be thrown, its colour and appearance profoundly influenced by that background. The observer of the varied Indian scene is apt to be misled by its episodic abundance. It is true that there is something tangential in Indian politics, but tangents after all arise and derive their importance from the curves they touch, and when considering the Indian political picture it is the curve and not the tangents we must seek.

Congress hotheads and a good many others would perhaps deny that any essential importance attaches to the White Paper proposals; a not uncommon Congress attitude is to admit their interest and importance, but to claim that these features are isolated from the essentials of the Indian political problem. Actually, however, it is the emergence of these proposals, their nature, and their discussion in London which to a large extent have governed even the most apparently individual and Indian contri-

India : Mr. Gandhi Again

bution to our political drama of the last three months, namely, Mr. Gandhi's 21 days' fast in May.

I. THE FAST

EVEN at this stage, nearly three months afterwards, it is not possible to pronounce with any confidence on the real origin of this remarkable performance. On May 1 the Government of India received from Mr. Gandhi a telegram announcing his intention to fast. It began: "For reasons wholly unconnected with Government and solely connected with the Harijan* movement, and in obedience to a peremptory call from within received about midnight. . . ." The telegram went on to say that the fast might have begun immediately but for Mr. Gandhi's desire not to embarrass the Government more than was necessary. The Government of India took the decision, generally anticipated and appreciated, to release Mr. Gandhi unconditionally, which was done on the evening of May 8, the fast having begun at noon on that day. The order for release opened by saying: "In view of the nature and objects of the fast . . . and the attitude of mind it discloses. . . ." The presumption was that Mr. Gandhi's objects were solely connected with the movement against untouchability with which he had of late months been associating himself. There were obvious humanitarian and practical reasons for the Government's action. Since the fast was declared to be solely connected with the anti-untouchability movement, it was both more humane and more convenient that it should be conducted outside a government jail.

Mr. Gandhi's decision took everyone by surprise, and embarrassment was not least perhaps in certain nationalist circles. His anti-untouchability activities have never

* The name coined to describe the agitation on behalf of the Depressed Classes.

The Fast

secured general Hindu support, though prominent individuals have taken them up with some enthusiasm. These activities, being social or religious rather than political in object, were unlikely to arouse much enthusiasm in the average Congress Hindu, and the great bulk of Congressmen are Hindus. The Hindu Mahasabha, an organisation of much power and influence which in the past has been indirectly a tower of strength to the Congress movement, had never accepted Mr. Gandhi's operations against untouchability. His apparent obsession with it seemed likely to defer still further any consideration by him of the urgent problems awaiting decision. Between the intimation of the fast and its actual beginning, therefore, the Indian press contained a good deal of adverse comment on this latest Gandhi departure. A prominent Congress daily remarked that the decision had caused not so much surprise as consternation. A notable pronouncement was made on May 4 by Mr. Kelkar, who described Mr. Gandhi's conduct as "irrational and unfair" and "amounting practically to coercion," a view which found many supporters. The first reaction in Hindu circles may not unfairly be said to have been one of resentment.

Discussion took a new turn with Mr. Gandhi's statement issued immediately on his release. In this he took occasion to declare that his views about civil disobedience had undergone no change whatsoever. He went on to propose the suspension of the movement for a month or six weeks, apparently on the ground that during his fast all civil resisters would be "in a state of terrible suspense." The next sentence constituted an appeal to Government to acknowledge this concession and unconditionally discharge all "civil resisters" in jail. Other pronouncements were that civil disobedience could not be withdrawn so long as so many civil resisters were in prison, and that no settlement could be arrived at so long as Messrs. Vallabhai Patel, Abdul Ghafur Khan and Jawaharlal Nehru in particular were "buried alive."

India : Mr. Gandhi Again

How a statement of this kind was to be reconciled with the opening words of his telegram to the Government of India which we have already quoted, only Mr. Gandhi perhaps can say. If words mean anything, he seems open to the charge of having been disingenuous. Perhaps the most significant item in the whole statement was his expressed hope that he would be able to "tender advice to Congress leaders and to Government," and to "take up the thread at the point where it was interrupted on my return from England."

Whatever the original doubts entertained in Congress circles regarding the fast, they were quick to seize upon the statement as a weapon in argument. It was proclaimed as a generous and statesmanlike gesture which had fundamentally altered the whole situation; the suspension of civil disobedience was declared an *eirenicon* which no government could disregard. It is probable that hopes were entertained that a few days' campaign to this effect would produce such reactions in the United Kingdom and in India that the Government would find it impossible not to enter into some kind of negotiation with Mr. Gandhi. In that event the prestige of the Congress would have been restored. The prompt appearance, however, of a brief government *communiqué* referring the public to the Home Member's statement in the Legislative Assembly as still representing the government attitude came as an effective douche to any such hopes. The following sentence from the Home Member's statement sums up the Government's position: "There can be no co-operation under the menace of a revival of civil disobedience."

A government holding such views was obviously wise in publishing them at the earliest possible moment before expectation and rumour had time to grow. The statement appeared in some papers that the government *communiqué* had forestalled a reference from London which would have led to further discussion. This was promptly denied from London and its publication seems at best to have been a

The Fast

case of the wish being father to the thought, but more probably a deliberate attempt to play off in a familiar fashion London against Simla. The intemperance with which the nationalist press condemned the Government's attitude is perhaps a measure of the hopes they had entertained, which that attitude so rudely shattered.

The actual circumstances of the fast might fairly be described as bizarre. A proclaimed ascetic, revered as such, embarks on a fast in aid of the untouchables to whom he has devoted his activities, but that fast is carried out amid every incident of publicity and luxury, with an array of doctors, nurses, appliances and comforts far beyond the range of possibility open to any but a millionaire. This aspect of the situation did not go without comment in any branch of the press, but Moslem organs were by far the most outspoken and pungent. A Calcutta journal applied the blunt word "megalomania" to Mr. Gandhi, and a Frontier paper, after praising his "unparalleled skill as a bluffer," went on to suggest that after his fast he should retire from political work and try to live "as Sadhus and Sanyasis ought to live," in self-imposed and unpretentious obscurity.

Mr. Gandhi declares his fast the result of a peremptory call from within. This does not, however, render invalid the suspicion that the peremptory call may have been the result, possibly unconscious, of long pondering on his own and the Congress position in the country. At any rate, even admitting no such derivation, it is incontestable that he was prompt to use his decision for the furtherance of Congress ends. The chief ambition of Mr. Gandhi and his associates is his restoration to the position he occupied two years ago, when with Lord Irwin he filled the Indian political stage. Had he succeeded he would undoubtedly have ascended to heights of popularity and influence approaching those which he enjoyed before. By his failure, on the other hand, he has dealt his own and the Congress position a severe blow. Indian parties dislike

India : Mr. Gandhi Again

leaders who fail, and a notable feature of the press in recent weeks has been an amount of personal criticism of Mr. Gandhi such as has never hitherto occurred. The denunciation by Mr. Patel and Mr. Bose may perhaps be put on one side, as that of admitted extremists. But all over the country Hindu opinion has become alive to the errors and weaknesses of their once revered leader. One prominent Indian politician complained that the fast system and a single individual's "monopoly of God" produced total suspension of judgment, paralysis of reason and the emergence of abject credulity. The leading article in Mr. Chintamani's paper of July 29 remarks : "Mr. Gandhi is truly a Mahatma, but he demonstrates more and more that he is a misfit in politics."

II. THE CIVIL DISOBEDIENCE MOVEMENT

THE civil disobedience movement has retained its prominence during the period under review, but with a difference. Formerly its importance was that of a threat to the whole system of government ; during the past weeks it has commanded interest from the differences among its previous supporters over its projected abandonment. As has already been remarked, whatever the actual origins of Mr. Gandhi's fast, it quickly developed a close connection with the survival of civil disobedience as an organised method of Congress effort.

Civil disobedience, as we have seen, was suspended during Mr. Gandhi's fast. On its expiry, as a result of his slow recovery, the suspension was continued till July 31. The first suspension had been accepted generally. The second was freely questioned, a Bombay journal describing it as cowardice and betrayal. On the other hand, the second suspension seemed to inspire to a hitherto unprecedented boldness and clearness of statement that section of Congress opinion which favoured the abandonment of civil dis-

The Civil Disobedience Movement

obedience without condition, as a proved failure. On this issue wide divergences became quickly apparent. Perhaps the chief contribution to the discussion was an open letter published on June 24 by Mr. Asaf Ali, an influential Moslem Congressman of Delhi. He declared the Gandhi programme, which had been before the country for fourteen years, to be a virtual failure and said that for Congressmen the time had come to take stock. The Congress needed a new enthusiasm for a new objective, and this, he said "should be the ballot-box front."

His letter, which ran to considerable length, was really a searching criticism of the whole Gandhi theory and its supporters, but was far from an abandonment of the general aspirations of the Congress. His suggestion was that the Congress should make it clear that they meant to take the fullest advantage of the constitutional machinery to advance their aims and aspirations. If the amendments they desired in the constitution were carried out in the right spirit they should work it with a will, otherwise pursue a fighting programme from within. There was far more urgent constructive work for the Congress to do than the revival of civil disobedience in order to maintain a principle, and he concluded by saying that a clear offer of co-operation for five years as a test period would shift the onus on to the shoulders of the British.

This important and interesting letter produced a great volume of criticism and discussion, and undoubtedly forced attention to the issue with which it dealt. Clearly, too, it encouraged many who otherwise might have equivocated or kept silent to express their opinions. So marked became the volume of criticism that a meeting of Congress leaders fixed for July 12 at Poona had to be expanded into a large conference. From this conference emerged another of those solo performances of which Mr. Gandhi is so fond. The proceedings of the conference were kept secret, but it is clear that a large body of opinion was in favour of the unconditional withdrawal of civil disobedience. To

India : Mr. Gandhi Again

this, however, Mr. Gandhi was resolutely opposed, and the final decision was that he should get into touch with the Viceroy in order to secure an interview, if possible, to discuss the position. In the event of failure, civil disobedience was apparently to be resumed. The result, of course, was what might have been expected. Mr. Gandhi's second communication, professing surprise that the Viceroy should have apparently listened to unauthorised reports of confidential proceedings, came strangely from his pen, and carried little conviction, although the Congress press was loud in denunciation of the Viceroy's "obstinacy" and "obsession with prestige."

No observer could fail to note a certain hollowness in all this comment, and indeed it is doubtful if anyone in India ever expected any other issue. In interviews and speeches at the time of the Poona discussions, Mr. Gandhi had declared himself absolutely unconvinced of the advisability of an unconditional withdrawal of civil disobedience, which, he declared, would be "nothing short of absolute surrender and the end of all Congress ambitions." He would, he said, prefer the movement to continue as long as a single honest worker remained. With such expressions on his lips he could hardly be surprised at the result of his application for an interview.

The position became even more involved after this correspondence, but the current in favour of abandonment was clearly strengthening. The next stage was the promulgation on July 23 of certain instructions regarding Congress work by Mr. Aney, the acting President. The chief items in that manifesto were that mass civil disobedience, including no-tax and no-rent campaigns, should be discontinued; that all Congress organisations should for the time being cease to exist, provided that dictators were continued; that all persons able and willing to offer individual civil disobedience on their own responsibility were expected to do so, but they should not look for any help from Congress organisations; while the concluding

The Civil Disobedience Movement

item declared that all Congressmen unable to offer civil resistance were expected to carry on any constructive activities for which they were fitted. The contents of this peculiar document had been foreshadowed in a press interview with Mr. Gandhi a short time before, and the general belief, which has not been contradicted, is that the document was inspired or, as one paper had it, "dictated" by Mr. Gandhi himself. The position it discloses is peculiar, and, in some respects, incomprehensible. Civil disobedience is not to be unconditionally withdrawn, but the other provisions seem to amount to little short of such withdrawal. The statement has come in for severe condemnation on all sides, even from papers such as the *Tribune* and the *Leader*, which have for long steadily questioned the advisability of continuing the civil disobedience campaign. Their criticisms are based rather on the ineptitude of the document as a guide and on its arrogance in abolishing Congress organisations, which, remarks the *Tribune*, can, like the British Parliament, be dissolved only by themselves, not by dictators, whether their names be Aney, Gandhi or Cromwell.

On July 27 Mr. Gandhi issued a long statement giving reasons for the Aney manifesto. He admitted that Congress as an organization was finding it increasingly difficult to render mass activity effective. He declared himself filled with joy at the progress made, but unable to disregard the danger of a sudden outburst of violence so long as "violence of heart" was not eradicated. All the experiences of western nations, he said, went to warn India that the way to peace and happiness did not lie through violence. He invited Congressmen's attention to constructive activities such as Harijan service, communal unity, khadi, prohibition, boycott of foreign goods, development of village industries and so on; in fact no branch of national activity need be left untouched. Regarding Council entry, he declared that to think of working the reforms was, in his opinion, altogether premature, since no one knew what they would be nor when

India : Mr. Gandhi Again

they would come, if at all. It would be better to wait till reforms came before anyone committed himself to working them.

The attack on this statement and the attitude it reveals is gathering momentum daily. The *Leader* of July 29 complains that "there is no recognition anywhere (in Mr. Gandhi's statement) of the colossal failure of direct action in existing circumstances in India," while the *Tribune* shows by a searching analysis that his latest position points straight to political chaos and anarchy at a time when the crying need is for disciplined practical effort.

Our period closes, therefore, with an apparent chaos within the Congress movement and gulfs wide and deep between its various sections and principals. The Government's attitude towards the actual civil disobedience movement has played a large part in producing this state of affairs. The importance of the consistent application of any policy in India has received marked confirmation. It would be a mistake, however, to attribute the present not unpromising position only, or perhaps even primarily, to administrative action. The publication of the White Paper, the gathering of a Joint Select Committee and the inception of its discussions have brought home to all sections of political India that the changes sponsored by His Majesty's Government are in fact on their way. Whatever their demerits, whatever the irritation they cause or the censure they invite, there they are as concrete indications of intention. A large mass introduced into a chaos of discrete particles acts as a centre of attraction tending to produce either amalgamation or, at any rate, regular motion with reference to the centre of attraction. This physical parallel might perhaps be applied to the appearance of the proposals of His Majesty's Government in this shifting Indian world of conjecture, allegation and aspiration. It has truly been said that the later policy of the Government has been twofold, i.e., to put down lawlessness with one hand, and to frame constitutional proposals with the other. It would

The Reactions to the Poona Pact

be difficult to attribute priority in importance; it may certainly be said, however, that it is only the operation *pari passu* of both sides of the Government's policy that has produced the state of affairs we see to-day. It is thus that the idea of the White Paper as the true background will be realised.

III. THE REACTIONS TO THE POONA PACT

REFERENCE has been made to Mr. Gandhi's anti-untouchability campaign and to the doubts, hesitations and suspicions it provoked among Hindus of varying classes. Though on a first glance this might seem to be a purely social matter, it has for many, and not only for Hindus, a strong political significance. There must be many in India now convinced that haste is unwise in other compacts than matrimony. From both Depressed Classes and Hindus clamour has been rising against the provisions of the Poona Pact,* concluded last September in such dramatic circumstances and acclaimed so loudly at the time as a proof that Indians could solve their own differences.

The chief effect of the Pact, it will be remembered, was to give the Depressed Classes by reservation in the joint electorates 148 seats as against the 71 accorded to them by the Communal Decision under separate electorates. Dr. Ambedkar, the leader of the Depressed Classes and their chief representative in the negotiations which produced the Pact, shortly before his departure for England as one of the Indian associates of the Joint Select Committee, had an interview with Mr. Gandhi on the subject of a desiderated modification of the Pact from the Depressed Classes' side. This modification related to the provision in the Pact for the primary election by Depressed Class voters of a panel of four candidates, from which the general electorate should choose the incumbent of the reserved seat. Dr. Ambedkar's desire was to get rid of this

* See THE ROUND TABLE, No. 89, December 1932, p. 155.

India : Mr. Gandhi Again

primary election and have a single election by the general electorate with a proviso that no Depressed Class candidate should be elected who did not secure a certain fixed proportion of the votes of that community. When asked why he had originally assented to this provision in the Pact, Dr. Ambedkar pleaded the hurried nature of the negotiations. Mr. Gandhi gave him little encouragement and declared that he would not readily accept the proposed change.

The hesitation of the Depressed Classes with regard to the panel system is based mainly on grounds of expense, and clearly there is something anomalous in the poorest section of the electorate being required to face a double set of elections. Other considerations, however, are also present. It is clear that Mr. Gandhi and those with him think it quite likely that there may not be any need for a primary election at all. If, for example, nominations numbered only four there could be no election, and it seems to be assumed that the language of the Pact does not make it essential that there shall be a primary election. Yet from the Depressed Classes' standpoint the only guarantee that they will themselves be able effectively to control the selection of their representatives is that a primary election should take place. In its absence outside influences could almost certainly arrange that one at least of the persons nominated would be an individual likely to be amenable to Hindu or other persuasion. Any such individual would of course count on the full strength of the Hindu vote and would almost certainly be elected. Hence, it may be, Mr. Gandhi's objection to the alternative proposal put forward by Dr. Ambedkar ; the requirement of a minimum proportion of Depressed Class votes would impede the free exercise of Hindu predominance in the general electorate. It is not, it is suggested, unfair to detect in Mr. Gandhi's opposition some consideration of Hindu advantage, and not only solicitude for the true interests of the Harijans. Nor is there any reason why Mr. Gandhi should not study

The Reactions to the Poona Pact

the interests of those whose leader he considers himself to be. The *Tribune* of Lahore, a paper usually notable for independence of view, has given qualified support to Dr. Ambedkar's proposal, but on the whole Hindu opinion is adverse.

It might be expected that Moslems would take little interest in this question. They are, however, suspicious of Hindu negotiations with regard to it, and feel that their object is by manipulation of the Depressed Classes' vote and representation to add to effective Hindu influence in the legislatures. The general Moslem preference might be said to favour a smaller number of Depressed Class seats elected by a separate electorate rather than a larger number derived from a joint electorate, on the grounds that the smaller number would be more homogeneous and individual, whereas the larger might as easily become a mere reinforcement of the ordinary Hindu representation. Hence a good deal of acrid Moslem comment. The *Eastern Times* of Lahore dismisses Mr. Gandhi's attitude as "sheer despotism." It declares the Poona Pact to be "the fruit of this quite illegitimate pressure," and suggests that in view of all the circumstances "it is quite time that this Pact, to which no one adheres, was abrogated."

The chief opposition to the Pact on the Hindu side comes from Bengal and has been brought to the notice of the Joint Select Committee. There is at first sight something anomalous in the position which the Pact accords to the caste Hindus in this province. They predominate in education, wealth and general influence, but in the Legislative Council they will have only about a fourth of the total membership. Hitherto their efforts have been concentrated on memorials and representations with the object of obtaining some modification of the distribution embodied in Appendix III to the White Paper. His Majesty's Government have adhered to their attitude of advocating no change in this document which is not demanded by the interests concerned. What the Joint Select Committee

India : Mr. Gandhi Again

will advise is a matter for the future. But if the distribution stands in its present form, it is not likely that Bengal Hindus will accept the decision with a good grace.

One line of attack is to allege that the number of seats given to the Depressed Classes in Bengal grossly exceeds the proportion of these classes to the population, an excess which is due to an erroneous classification of communities under this head. Indications have already appeared in the Press and elsewhere of a disposition to attack this classification. The Franchise Committee's Report will suffice to show the divergent views entertained on the question of what constitutes the Depressed Classes, and political Hindu opinion would favour a restriction to the untouchability criterion. The whole problem bristles with difficulties ; we have not by any means heard the end of this particular issue, and the enunciation of a Joint Select Committee recommendation will not of itself close the discussion. The allegation that the Depressed Classes will be over-represented in the councils, although most often heard in Bengal, is frequently made in other provinces also, e.g., in the United Provinces and the Punjab.

Presuming that the present allocations stand, and the actual system contemplated comes into force, it is not unlikely that it will be in Bengal, where the Depressed Classes have outwardly the most advantageous position, that their actual representatives will be most under the control of Hindu interests. The panel system is not in itself a complete guarantee that the Depressed Class occupants of reserved seats will in fact be independent representatives of these classes.

IV. THE JOINT SELECT COMMITTEE

THOUGH comment on the White Paper has not been absent during the quarter, there has inevitably been a marked decline in its volume since the spate in March and

The Joint Select Committee

April. As the last day fixed by the Joint Select Committee for the receipt of applications to give evidence approached, it became clear that the would-be witnesses were many. Whatever denunciations may have greeted the proposals, Hindu opinion had clearly decided that this at least was no occasion for a boycott. The change of view was most noticeable among Punjab Hindus, on whose behalf Pandit Nanak Chand departed to testify before the Committee. The Hindu Mahasabha at an early date decided to give evidence, and at the end of May Dr. Moonje took occasion in a speech at Saugor to declare roundly that, as regards the Joint Parliamentary Committee, the Mahasabha "never had any faith in the kind of non-co-operation Mr. Gandhi has been preaching and practising" but believed in "responsive co-operation." "Whatever the constitution of the legislatures," he said, "they should never be boycotted but worked to the best advantage of the country." In pursuance of these views, the Mahasabha intended to give evidence, if invited—as of course it was.

The absence of published proceedings has naturally tended to restrict the amount of comment devoted to the proceedings before the Joint Parliamentary Committee, but none of the main features has gone unnoticed and one cabled report produced a minor storm. The apparent delay, the nature of the first evidence, the strength of the Conservative opposition, or at least hesitation, all tended to produce a certain depression here. It was noticeable, however, that the extreme attitude of the Lloyd-Churchill school found little approval even among Europeans.

The minor storm referred to is of interest not so much for the actual incident which occasioned it as for the light it sheds on political ideas and ambitions in India. The Secretary of State and Sir Malcolm Hailey were reported in messages to have expressed themselves in favour of granting Governors' private secretaries in future the status of Executive Councillors, of non-elected Ministers, of police legislation and rules being reserved for the Governor, and

India : Mr. Gandhi Again

of provincial second chambers. The reaction was immediate, and provincial Ministers, who happened to be in Simla at the time for a departmental conference, sought and obtained an interview with the Viceroy on July 15 in which they protested against this apparent "whittling down" of provincial autonomy." The following day a *communiqué* was issued declaring that no such positive recommendations had been made, though the points had come up in the course of the evidence and tentative opinions had been offered, and in one case a purely personal preference expressed. The Secretary of State's appeal, supported by Sir T. B. Saprú, Sir Austen Chamberlain and Mr. Zafrulla Khan, that his evidence should be considered as a whole was accepted here as reasonable, and there seems to be a growing tendency to admit both his courage and his difficulties.

The quickness of the reaction was significant and if, as was said, the proposal to seek an interview with the Viceroy prevailed with difficulty over a proposal to issue an immediate manifesto of protest, the strength of the feeling aroused becomes apparent. Moslems, particularly in the Punjab, reacted most of all. This incident illustrates how strongly the provincial view appeals to this community. At the centre it can never look forward to predominance, therefore, say its spokesmen, let us ensure the maximum of scope for provincial units, in some of which ours will be the chief voice. Hence a general touchiness on the part of Moslems to anything calculated to detract from such autonomy as the White Paper proposals concede to the provinces. On anything affecting this issue it would be wise to walk warily.

India.

July 29, 1933.

TRADE PROSPECTS

THE break-up of the Economic Conference has had fewer immediate psychological effects than might have been expected after the sombre prophecies with which it opened. The shock—if it could be called a shock—was the less disturbing because already in most countries there have been for the last six months (or longer) some encouraging symptoms of internal recovery, and a general hope that, even if President Roosevelt's economic revolution achieves only half of what it aims at, the American contribution to the rise in prices will be lasting. The manner of the Conference's dying made it a subject for ironic jest, but, while cynicism about international remedies has much to feed on, it would be a misreading of the temper of British industry to assume that a conscious plunge into national self-sufficiency, such as Mr. Keynes and Mr. Lloyd George in their various ways have advocated, finds much support. The prevailing mood was fairly reflected by Mr. Chamberlain in one of the last debates before Parliament adjourned, when he spoke with some cheerfulness of the encouraging trends in industry and employment but insisted that international co-operation remained essential for full recovery.

The instinct for making the best of things led to a good deal of optimism over the June employment returns, which showed an increase of half a million at work since January, and over the picture they presented of improvement in most branches of industry. The better tone persisted in iron and steel, in most branches of engineering, the electrical industry, most textiles, boots and shoes, pottery and chemicals. As a set-off, the June trade returns were not too promising, and figures of railway goods traffic, bank advances and retail trading did not exhibit an upward trend. Most evidences suggest, however, that there has been no real check to the slow upward climb begun nine or twelve months ago. The July unemployment returns showed an apparent small increase, but, if holiday regis-

Trade Prospects

trations in Scotland, Lancashire and Yorkshire were allowed for, they were encouraging; most manufacturing industries again showed expansion of activity. The July trade returns were better than those of June. The *Economist's* analysis of industrial profits for the June quarter shows the first quarterly increase for three years, and supports the conclusion that some measure of equilibrium has been reached in the finances of British industrial undertakings. That journal's new index of business activity shows "unmistakable signs of the beginning of an upward movement," and suggests that deterioration was checked in 1931, and that since the end of that year the position has been held. The improvement in employment since January compares favourably with that in other countries, even the United States and Germany (for in the latter case the figures must be looked upon with suspicion on account of the large volume of seasonal employment anticipated by the early harvest). But while all this is good as far as it goes it is not a sufficient foundation for the belief that things will come right of themselves, or, at worst, that the process will be long and hesitant. Most people would probably assent to Mr. Dennis Robertson's dictum at the Liberal Summer School:

The trade cycle, for mysterious reasons of its own, started on the upgrade in the middle of last year, and I do not believe that the feather-headedness of the United States Government, nor the swelled-headedness of the German Government, nor the flat-headedness of the British Government can stop it.

But wrong-headedness can do much to hamper it.

The recovery, such as it is, is so far too much a matter of internal and not of external trade, and the future of our exporting interests is almost as doubtful as ever. The gains from the series of bilateral agreements on which the Government is relying are bound to remain too limited to form a substitute for the general freeing of the channels of trade. Among other causes of disquiet one need

Japanese Competition

instance only the growing fears of Japanese competition and the apprehensions—since the depreciation of the dollar—of American inroads into markets like Canada and South America in which sterling depreciation had previously given us an advantage.

I. JAPANESE COMPETITION

THE first of these, Japanese competition, is creating a special problem of commercial and political diplomacy. Its first appearance as a menace to British export trade was in rayon, one of the newest of industries, and in cotton textiles, one of the oldest; but the Federation of British Industries now instances as within the range of severe competition heavy chemicals, electric lamps, cycles, buttons, zip fasteners, cement, and rubber boots and shoes. Pottery may be added. There is indeed no reason why any limit should be set to Japan's capacity to enter successfully into competition in most ranges of manufactures.

So far, however, the problem has been presented mainly as one of cotton piece goods and rayon, which, apart from silk, are much the largest of Japan's exports. Although, on the recommendation of the Import Duties Advisory Committee, the British Government has imposed extremely high specific duties on imported rubber boots and shoes—aimed clearly at Japanese goods—the demand for fiscal defence has expressed itself in relation less to the home market than to the Empire, and especially to the tropical and Eastern colonies and dependencies. Earlier phases of the movement for action against Japan were described in a previous number.* As expressed in the resolution of the Manchester Chamber of Commerce in December, the modest request was (1) that India's fiscal autonomy should be subordinated to the interests of Lancashire producers, and (2) that high preferences for British goods

* THE ROUND TABLE, No. 90, March 1933, p. 354.

Trade Prospects

✓ against foreign competitors, Japan in particular, should be granted in all the non-self-governing colonies. This policy of imperialist domination was not taken up by the Government for pretty obvious reasons, and die-hardism in Lancashire has now fortunately given place to saner counsels. The Manchester Chamber of Commerce, which in December was threatening to wreck an Indian settlement if the Government would not make India take Lancashire goods, was in July preparing to co-operate with the Indian cotton industry, and admitting the Indian premise that opposition to India's claims for self-government should be withdrawn. The explanation perhaps represents less a victory for reason than one for the hard facts of Japanese competition.

In recent years the grievance of British producers against India has been that their goods have been pushed out of the market by the rising tariff imposed in the interests of Indian producers and by the boycott employed as a means of nationalist agitation. Hence the persistence of the demand for interference from Whitehall and for a firm hand with Indian politicians. A straight answer was given by Mr. Baldwin in a speech at Manchester on June 29.

Anybody who tells you that you are free to go back on it [the Fiscal Autonomy Convention], or that you can go back on it, is telling you something that is not the case. . . . No British Government can do, or will do anything of the kind, of whatever party it may be. . . . Whatever safeguards we have, the real safeguard is the maintenance of goodwill. If there is not a basis of goodwill your trade will eventually wither away. . . . Whatever a Government may do you cannot prevent a population nowadays, especially an oriental . . . population, if it considers that it has been unjustly treated, from expressing its feelings by refusing to buy goods. . . . You cannot sell goods in India by hanging cotton streamers on the point of the bayonet.

But since Japan's descent into currency depreciation—in which she followed Great Britain after a few months—the issue has been no longer between Lancashire and the Indian mills, but between both of them and Japan. In

Japanese Competition

1930 and 1931 Japan exported to India an annual average of 404,000,000 square yards of cotton piece goods; in 1932 she exported 644,000,000.* She undersold the Indian mills, notwithstanding their cheap labour and their high tariff protection. It was to meet this domestic crisis that the Indian Government opened the offensive against Japan. In April, six months' notice was given to end the Indo-Japanese commercial treaty, which accorded most-favoured-nation treatment, the intention of the Indian Government being to clear the way for the imposition of exchange dumping duties against Japan. This was commonly regarded in Japan—where the constitutional niceties of the imperial connection are scarcely appreciated—as a blow dictated from Lancashire, the last thing that could be said of it. On the British side, Mr. Runciman then made the first move by proposing that British and Japanese industrialists should meet in London to discuss the problem of competition in all markets. As a hint of the seriousness with which he viewed the matter, this was followed by the giving of twelve months' notice to withdraw West Africa from the scope of the most-favoured-nation treatment accorded by the Anglo-Japanese commercial treaty, and by the imposition of higher duties on foreign cotton goods in Malaya and East Africa. While the Japanese Government and industrialists were disputing with the British Government about the conditions of the London meeting, the Indian Government stepped in with a crushing blow. The duties on non-British cloth were raised from 50 to 75 per cent. This incidentally gave Lancashire the windfall of a greatly increased preference. Japanese opinion was whipped into fury and reacted with threats of a boycott of Indian cotton, of which Japan is the chief user. Indo-Japanese negotiations for a new treaty became inevitable; neither country could afford to sacrifice its valuable trade. But, equally, direct British-Japanese dis-

* See "Factors in Japanese Competition," a report of the Joint Committee of Cotton Trade Organisations, p. 6.

Trade Prospects

cussions could not be of much use, for the British could not speak for India and the Japanese put India before everything else. The only solution so far advanced is the British proposal of July 20, that tripartite discussions should take place in India between textile representatives of India, Great Britain and Japan, on competition in those markets in which the Indian cotton industry is interested (*e.g.*, India, Ceylon, Malaya and East Africa), and that conversations between Great Britain and Japan about other markets should follow in London later.

Japan's acceptance has yet to be notified; it may not be readily given. But the procedure suggested obviously represents on our part an important extension of the Ottawa principles. It presupposes agreement between India and Lancashire as to the place to be filled by British goods in the Indian market. The discussions are to be held in India, so that there will be no derogation of Indian status. British industrialists will be associated with the negotiations for an Indo-Japanese treaty. An agreement on cotton must almost of necessity involve a more general interchange of preferences between the two countries. The underlying conditions were stated by Mr. Mody, the spokesman of the Indian cotton industry, in a speech at Manchester on July 21, in which he offered co-operation with Lancashire, "if it were felt in my country that Lancashire interests could be relied upon to lend their support to a solution of the political problems of India which would be in harmony with the views held in every responsible Indian quarter, and if, moreover, it was made clear that Lancashire really acknowledged the right of India to frame her policy, whether in regard to tariffs or to any other measures, with reference to her own needs."

The discussions in India next month will show whether it is possible to agree upon a division of markets between Japan and her competitors as a possible alternative to a disastrous war of tariffs and prohibitions. Agreement as

Japanese Competition

to the division of markets assumes the existence of quotas, regulated exports and possibly price arrangements. Can these devices hold against the pressure in Japan to expand production and export? Japan's case as presented in her recent propaganda is simple enough. It is that she must export to live, that her industries have been built up on efficiency of production, that the charges brought against her of sweated labour are grossly untrue, and that her competitors are envious only because their industries are not efficient and their labour costs high. The advantages of exchange depreciation are admitted, but are brushed aside as transient, for Japan professes herself as anxious for exchange stabilisation and a return to gold as any other country.

A recent important report, "Factors in Japanese Competition, 1924-32," issued by the Joint Committee of Cotton Trade Organisations, gives good reasons for thinking that the advantages of the depreciation of the yen may not be quickly lost; a rapid compensating rise in wages and in the internal price level cannot be relied on in a country which depends so little on imported foodstuffs. But, as the report points out, "although the fall of the yen is sufficient to account for the additional severity of Japanese price competition during the last few months, it does not explain the previous spread of Japanese exports or the relatively low prices at which Japanese goods were sold while the exchange was normal."

When the exchange factor has been disposed of (the report adds), Japan will be left with the advantages in cost of production which she possessed before her departure from the gold standard. Up to 1930 a large part of Japan's improvement in costs arose from bringing her industry up to European standards of efficiency. Any further advantage she may gain from new inventions or improved methods will be equally open to her competitors. The sole advantage left, therefore, is that of labour cost. The experience of European nations has been that as industrialisation proceeds, wages and standards of living rise, and it is probable that the same process will be followed in Japan. Progress in this direction, however, can

Trade Prospects

only be slow, and any important change is unlikely until world trade conditions improve.

The advantage for the present lies all on the side of Japan. The background of her technical progress has been too little appreciated in this country. Thus in the cotton trade the number of active spindles per spinning operative has been nearly doubled, and the number of active looms per operative has been exactly doubled between 1926 and 1932. The production of cloth per operative has more than doubled. Meanwhile the actual earnings of operatives have been reduced. Even allowing for Japan's relative backwardness a few years ago, no such comparable advance has occurred in this country, and as the Japanese industry possesses in addition a closely knit organisation, it will not be easy to bring Japan to a compromise which will satisfy her belief in her industrial destiny. If she gave up something temporarily, who can set bounds to her future ambitions?

There are, however, practical difficulties in the way of even a temporary accommodation. The rationing of markets, which is assumed in the Runciman proposal, in the Indian negotiations and in the proposed alliance between the Lancashire and Dutch cotton industries in Dutch colonial markets, involves a certain degree of exploitation of the consumer. Ceylon has already objected to a preference for Lancashire against Japan; there is criticism in West Africa of the denunciation of the treaty. It may seem natural to the British producer that he should have a monopoly or an assured share of trade, but it does not seem so natural to the colonist, who has found Japan's cheap goods more of a blessing than a curse in the present depression. A good deal more assurance is needed that the high cost countries are straining every nerve to reduce their costs by improved technical efficiency and internal organisation and selling methods. In these respects Japan has set an example which can be profitably studied.

The Internal Industrial Situation

II. THE INTERNAL INDUSTRIAL SITUATION

IF one turns from these speculative questions to look at the internal industrial situation, there is little fresh to record. Labour is quiescent, occupied mainly by internal discussions on the future of fascism in Great Britain, and by half-hearted agitations in favour of the 40-hour week (with some isolated experimental attempts to spread work at the price of reduced earnings). This month's Trade Union Congress will again lack a positive domestic policy. Two points should, however, be noted—the position in the coal industry, and the curious situation in the cotton weaving trade.

This summer has passed without a national coal crisis. On July 8 the gentlemen's agreement for the maintenance of wages expired, but the miners' fear that the withdrawal of protection would be followed by district wage cutting was not justified. The Secretary for Mines was able to give an assurance that the owners in no district intend to reduce wages so long as present conditions continue. This, of course, is not an effective guarantee, and Mr. Brown admitted that he had not been able to bridge the gap between the miners' demand for a national settlement and the owners' insistence on district settlements. The Government, instead, could only work for some form of voluntary agreement to promote peace. But the Government is not prepared to go beyond admonitions, and there was a certain amount of logic in the protest of the Miners' Federation, at its conference in July, "against the attitude adopted by the Government, which, having embodied in legislation the principle of the national regulation of production and prices, refuses to extend the same principle to the regulation of wages, and refuses to bring pressure upon the coal owners to keep faith with the miners." The Federation gave its executive "power to take any

Trade Prospects

action, including the calling of a national stoppage, should wages be attacked in any district in the meantime." This has a menacing sound but cannot be taken at its face value. The present leadership of the Federation is not rash and will not precipitate trouble. Moreover, a national stoppage could only be enforced by breaking a number of district agreements; before the Federation is in a position to employ its full strength it will have to possess the power to end all district agreements simultaneously.

The Federation had no part in the stoppage of the Welsh anthracite coalfield which began on August 15. The cause was a series of local grievances, and an unfortunate feature of the dispute was the men's decision to strike before the investigation of the grievances, to which both parties were agreeable, was begun.

The main difficulties of the coal industry are not, however, on its labour side. There is still no progress to report in the long discussions among the owners for the amendment of the marketing schemes. It was an unfortunate omission from the Labour Government's Act of 1930 that no simple process for the initiation of needed reforms was put in the hands of the Mines Department, which stands above the conflicting interests among the owners. On the side of amalgamation more can be said. The Coal Mines Reorganisation Commission is pressing on with its schemes of amalgamation in the smaller coalfields, but still has some stiff legal warfare in front of it. In its external trade the industry has gained something from the treaties with the Scandinavian countries. It may also look forward to some slight assistance from the subsidy for the production of motor spirit from coal. The subsidy was announced in July—but this expensive new industry is unlikely for some time to come to take more than the production of a single medium-sized colliery.

The cotton industry unfortunately retains its interest for the student of the pathology of industrial relations. After three years of contention over the question of in-

The Internal Industrial Situation

creasing the number of looms worked by each weaver, an agreement for the gradual extension of this labour-saving device was reached last December. Under the new system the weaver, instead of running four looms, runs six with the assistance of subsidiary labour; the rate of earnings per loom is lower, but the total earnings are higher, and a minimum wage is provided. No sooner, however, had the plain cloth districts begun to change over to the system, with its accompanying displacement of labour, than its whole basis became undermined. The trade unions were prepared to pay the price of the displacement of 30 per cent. of the labour—they had fought their battle against it and had lost. But it is not a price that all the operatives are willing to pay. Low as are weavers' earnings, men and women in some of the districts were ready to take lower wages all round rather than see comrades thrown out of work. In these districts bargains have been struck between the employers (mostly non-federated) and their weavers (union members defying their unions) under which the operatives will continue to run four looms, but will receive only the six loom rate for each loom, a stiff reduction of something like 25 per cent., leaving the weaver only 30s. or less for a full week's work. By this means the whole basis of collective agreements in the industry has been shaken. The low wage employer reduces his weaving costs and competes favourably with both the six loom system, which has to meet the additional cost of subsidiary labour and also of more slowly running machinery, and the ordinary four loom system which works under a higher wage scale.

Both the organised employers and the trade unions recognised the evil as a serious one, and the last few months have witnessed the spectacle of employers and operatives in an industry, which was once the classical example of the common rule, appealing to the Government to coerce minorities of employers and operatives to raise the labour costs of the one and the wages of the other. The industry

Trade Prospects

itself is powerless. The employers' organisation has no weapon against groups of firms which are prepared to stand out ; on the other hand, it is exposed to the danger of a sympathetic stampede among its own members. There is no common conscience among buyers of cloth to insist on a " fair wages clause." The operatives have only the weapon of expulsion from membership ; they are too weak to do more than protest ; calls to strike would be ignored.

For six months now, both the employers' and operatives' organisations have been denouncing the recalcitrants and appealing to the Government to step in. The Ministry of Labour, not unnaturally, has been shy. To begin with, what does the industry want ? Some of the employers' leaders would go the whole hog and ask for a statutory control board which would license only mills paying fair wages. (The powers of Mr. Roosevelt's Industrial Recovery Act would suit them admirably.) The operatives would like this, but would also be content with simpler measures—the legalisation of existing agreements, either by an ingenious amendment of the " particulars " clause in the Factory Act, or by the passage of one of the various Bills that have been presented to Parliament for the statutory enforcement of industrial council agreements. Any one of these courses assumes legislation, and this is hardly the Government to hasten to introduce the thin end of the wedge of State control into any large industry—except agriculture. One can hardly doubt that State intervention to assist reorganisation in the cotton industry will at some time become inevitable ; it is overdue. But State intervention for the maintenance of wage rates is another matter, and it is not surprising that employers in other industries should look sceptically on the cotton industry's claim for special measures and that the other trade unions should have doubts about the transfer of their functions to the State.

In the meantime the Ministry of Labour has been conducting an investigation into weaving trade wages on the results of which a new approach should be possible.

The Internal Industrial Situation

It may be that some adaptation of the trade board system to the cotton industry would best meet the needs of the case, and that statutory intervention might start out from the point of a minimum rate of earnings rather than from the formal continuance of an antiquated wages list. It may strike the outsider as curious that the cotton industry, which is trying to avert further deterioration in its wages standards, should have as its chief competitor an industry—the Japanese cotton industry—whose labour costs are almost two-thirds less!

Among some of the industries which have benefited most from the protection of the home market there are signs of a movement for higher wages. In the woollen and worsted industry, which has been helped by the exclusion of competition, the employers have refused even to consider the question. But until there is some change in the cost of living the trade unions are hardly likely to become importunate. They are still on the defensive.

SHIPPING SUBSIDIES

AT the instance of the British delegation, the sub-committee of the World Economic Conference, which was dealing with the question of government subsidies, placed subsidies on ship construction and ship operation at the head of its agenda. The reason claimed for this priority was that shipping subsidies upset the whole machinery of international trade by depriving it of competitive efficiency in an essential service. On the other hand, several delegations argued that all forms of State assistance to industry, agriculture and trade were interdependent and could not be discussed separately. The result of the sub-committee's deliberations, in any case, was nugatory. An absolute conflict of opinion emerged from the discussion of shipping subsidies. The necessity of explicitly recording failure to agree upon any international action was obviated only by the tacit application of the French thesis that "the restoration of monetary stability was an essential condition precedent to any practical reduction of the amount of bounties and subsidies."

I. THE PROBLEM

THE adjournment of the World Conference destroyed the best opportunity that has yet occurred of solving this problem by the only possible means—multilateral action among the chief maritime nations. Shipping subsidies are largely a product of post-war economic nationalism. They are associated, partly as cause and partly as consequence, with the slump in shipping freights and profits which has persisted with varying gravity since 1921. To them is to be ascribed in no small measure the existence of an enormous excess capacity in the ocean carrying trade. Between 1913 and 1931 there was an increase of 58 per cent. in the tonnage employed in the world's international

The Problem

sea-borne trade, but owing to the greater average speed of the vessels, and the more economical type of construction, the carrying capacity had increased by 75 per cent. The trade to be borne is at the present time only one-half what it was in 1913. There are at the moment 52 million tons of shipping available for international trade, and employment for only about one-third of that tonnage. It is, however, misleading to judge a long-term phenomenon on the basis of conditions ruling in the trough of a world depression. But even if world trade had increased from 1924 at the rate at which it increased from 1904 to 1913 the tonnage now required would be only about 40 million tons.*

Owing to the competition of surplus shipping, tramp freights fell by 7 per cent. in 1932, and were then on the average about 20 per cent. below their pre-war level. Working costs, on the other hand, stood at well over pre-war rates. In spite of cuts which had been recently enforced, seamen's wages were still 60 per cent. above the pre-war level.† Even some of the greatest shipping concerns, under these circumstances, have been brought to bankruptcy, and the shipbuilding industry is almost at a standstill. That the problem is essentially a world-wide one, not confined to a few countries which have failed to stand the pace, is shown by the distribution of idle tonnage. The only country which came near to employing all its ships (and it must be remembered that ships in service may be using only a small part of their carrying capacity) was Japan. In her case, the operations in Manchuria and northern China were absorbing, directly or indirectly, a great part of her otherwise idle tonnage. The other principal countries whose governments have resorted to shipping subsidies—the United States, France, Germany

* The figures in the above paragraph are taken from a report of the British National Committee of the International Chamber of Commerce.

† These figures are given in the latest annual report of the Chamber of Shipping of the United Kingdom.

Shipping Subsidies

IDLE TONNAGE, END OF 1932.*

(In millions of tons.)

		Shipping owned.	Laid up.	Per cent.
United Kingdom	..	19.6	3.2	16
United States	.. ..	12.7	3.8	30
France	.. ..	3.5	1.0	29
Germany	.. ..	4.1	0.9	22
Holland	.. ..	3.0	0.8	26
Norway	.. ..	4.2	0.7	17
Italy	.. ..	3.3	0.6	19
Sweden	.. ..	1.7	0.3	17
Spain	.. ..	1.2	0.3	20
Greece	.. ..	1.5	0.2	16
Japan	.. ..	4.3	0.2	5
Denmark	.. ..	1.2	0.2	16
Other countries	..	8.1	1.2(est.)	15
		<hr/> 68.4	<hr/> 13.4	<hr/> 20

and Italy—all showed a high proportion of tonnage laid up. The worst offender, the United States, had the highest percentage of all. These are facts to which it is worth while calling the attention both of the delinquents and of their competitors.

The problem presented by this surplus shipping is three-fold. First, some equitable means must be devised for getting rid of some of the surplus. Second, agreement should be reached, in cases where rivalry on liner routes is excessive, for the avoidance of ruinous competition and the "rationalisation" of the service. Finally, fair conditions of competition must be maintained by the abolition of government subsidies.

Several countries have already adopted governmental measures to assist in the scrapping of redundant tonnage. Last year the German Government set aside Rm. 12 million (£600,000 gold) for the allotment of non-interest-bearing loans as a compensation for scrapping, at the rate of Rm. 30 per ton scrapped. The maximum tonnage affected would

* *The Times*, February 22, 1933.

The Problem

therefore be 400,000 tons. Under a decree of October, 1931, a credit of 10 million yen (about £1 million at par) was furnished in the Japanese budget for the combined purpose of scrapping old tonnage and building new, in the proportion of two tons scrapped to one ton built. The rate of bonus on new building varied from 45 yen to 54 yen per gross ton. The vessels to be scrapped totalled 400,000 tons, and the replacement vessels 200,000 tons. In Italy, under decrees of 1931 and 1932, funds have been provided for the payment of a bonus of 25 lire per gross ton on the scrapping of 400,000 tons. The net reduction of tonnage involved in these three plans is thus one million tons.

A special committee of the Chamber of Shipping of the United Kingdom, reporting in June last, came to the conclusion that, as several countries had already adopted scrapping schemes, scrapping could be undertaken with advantage by each country on a national basis, but that any scheme for laying-up, in order to be effective, must be international in the sense that agreement to operate it must be reached in a sufficient number of countries. The committee submitted two draft schemes for consideration by shipowners—a national scrapping scheme and an international laying-up scheme. In order to finance the first, uniform tonnage dues would be collected compulsorily through government machinery on all ships under the British flag entering United Kingdom ports with cargo. Otherwise there would be no government intervention. A board, representative of owners, would be responsible for purchasing ships for breaking up. The international laying-up scheme was generally similar, but uniform tonnage dues would be collected compulsorily from ships of all flags in each country adopting the scheme, and the fund would be administered by an international representative committee. The committee would determine from time to time the amount of tonnage which should be laid up, and for how long, in order to maintain equilibrium between

Shipping Subsidies

supply and demand. Compensation would be paid in proportion to the amount laid up.

These schemes have encountered a certain amount of adverse criticism from British shipowners. This is no place to discuss the merits and disadvantages of their particular provisions. The vital point is that the only alternative to national or international schemes along generally similar lines is the process of elimination by bankruptcy or dereliction. This is a particularly protracted process in the shipping industry, for a number of reasons. One is that tonnage sold as valuable only in the breaker's yard is often bought by foreign tramp owners and used on competitive routes, under national flags which do not entail such a high standard of seaworthiness as the Board of Trade prescribes.

The rationalisation of traffic on liner routes is largely a French proposition. The French delegation to the World Economic Conference pointed out

that on the great international steamship routes there had sprung up a ruinous and futile struggle between national flags which took the form of a constantly increasing competition in tonnage and speed and of a dangerous rate war which was a menace to the budgets of both shipowners and States.

It proposed that the Conference :

- (1) Should advise States urgently to invite the shipowners of the countries concerned to conclude international agreements for the operation of the great ocean routes under multi-lateral contract and to limit the tonnage of future construction, the governments reserving the right to supervise the execution of such agreements ;

- (2) Should suggest the joint operation, subject to the retention of the national flags, of the vessels mentioned in the agreements and the determination of routes, time-tables and international rates, regard being had to the tonnage, speed and comfort of the boats named in the contract ;

- (3) Should point out that the best practical method of control was to introduce a joint account covering the whole of the working receipts and expenses.

The two main objections to this kind of proposal are, first, that it is futile so long as fair competition between the

The Problem

different liner companies is prevented by the subsidisation of some of them by their governments; and, second, that it is put forward by the country which, in the Atlantic "war" at any rate, has not held its own, and is naturally anxious to make peace with its opponents. The first criticism is a sound one, and our great liner companies would be wise to insist upon the abolition of government subsidies on the routes concerned as the prior condition of their participating in such a scheme. But whether they can count on the continuance of their present comparative success on certain routes is altogether another matter. Even if they can, success can be advanced and maintained only at the expense of a prolongation of present cut-throat conditions, under which even the best placed concerns can do little more than pare down their losses. International rationalisation, in our own interest, must come eventually.

All the expedients, however, which have been proposed for dealing with the problem of surplus tonnage are futile so long as the policy of government subsidies on ship construction or ship operation continues. Otherwise, the stream silts up as fast as the dredges clear it. Even this country's past record is not entirely spotless, since the loans made for shipbuilding under the Trade Facilities Acts bore a rate of interest—5 per cent.—which was perhaps 2 per cent. below the market rate ruling at the time for that class of security. Such loans totalled £30,750,000 for the construction of British ships, £6,120,000 for the construction of ships under foreign flags, and £2,020,000 for shipbuilding plant. The application of the Acts to shipping and shipbuilding ceased in March, 1927. Mail contracts are made as far as possible on a commercial basis.

In 1931, subsidies by the Japanese Government to ships carrying the mails amounted to 2,650,000 yen (£260,000 at par). From 1920 to 1932 they aggregated 155 million yen (£15 million at par). Between 1913 and the current year

Shipping Subsidies

the Japanese mercantile marine has increased from 1,708,000 tons to 4,258,000 tons. Since 1928 the German mercantile marine has been subsidised by the grant of preferential railway rates. Last year the Reich Government intervened in the reorganisation of the principal shipping lines, guaranteeing loans of Rm. 77 million (£3,800,000 gold) at a maximum interest rate of $7\frac{1}{2}$ per cent. Altogether, direct loans of Government money, guaranteed loans and grants for shipbuilding or the operation of ships have amounted to about £12 million at par. The Norddeutscher Lloyd and Hamburg-Amerika lines are now practically government concerns. In Italy, operating subsidies, chiefly in the form of mail contracts, reached an estimated total of 2,529 million lire (over £27 million gold) during the period from 1920 to 1932. Between 1927 and 1932, furthermore, the sum of 632 million lire (£7 million) was advanced for new construction or for purchases of vessels. The French budget for 1931-32 provided 196 million francs (£1,600,000 gold) for subsidising the costs of ocean mail services, principally those to the Far East, Australia, New Caledonia, the African coast and the eastern Mediterranean, and to Brazil and the Argentine. The aggregate excess of mail contract awards over the commercial value of the service has been estimated at 775 million francs (about £6 $\frac{1}{2}$ million) for the period from 1927 to 1932. Guarantees on the building and purchase of ships have been given, from time to time, to the total of 1,300 million francs (£10 $\frac{1}{2}$ million gold), and lately a further sum of 1,000 million francs (£8 million) has been advanced to shipping companies in difficulties.

But the worst culprit is undoubtedly the United States. The outlay of the American Government upon ship construction and operation through the United States Shipping Board, from 1916 to June 30, 1931, less repayments, was \$3,615 million (£743 million at par). This does not include expenditure for similar purposes by other departments. The total loss on shipping ventures incurred by the United

The Problem

States Government has been independently estimated at £1,000 million.* Ten-year mail contracts involving a total guaranteed compensation of some \$300 million (£60 million) have been awarded to private companies under the terms of the Merchant Marine Act of 1928. Compensation is based, not upon the volume of mail carried, but upon the size and speed of the vessels used and the length of the route served. The net operating subsidy on mail contracts—that is to say, the amount by which the compensation exceeded the commercial value of the services—has been estimated at \$37.3 million (£7½ million) down to June 30, 1932. In 1913 the United States had only 2,017,000 tons of merchant shipping. Now she has 10,088,000 tons.

The policy of subsidies has been accompanied by other nationalistic shipping legislation. The reservation of coastal trade for ships under the national flag is recognised in international law as a legitimate exception to equality of treatment between foreign and home shipping. The formerly accepted interpretation, however, of "coastal trade" was what is known as "cabotage," namely, cape-to-cape sailing. This is not the interpretation favoured by the United States Government, which reserves for ships under the national flag the trade between the mainland and outlying or island territories like Alaska or Hawaii. The state of affairs on the liner routes between America and Australasia may be cited as an example. There, the Matson line, subsidised both in construction and in operation, competes with two indirect subsidiaries of the P. and O. group, the Union Royal Mail and the Canadian-Australasian lines. In point of speed and modernity, the Matson liners come easily first, though experienced travellers remark upon the compensating advantages of the British ships. Probably every line is running just now at a loss, the Matson line no less than the others.

* By Sir Norman Hill in an address at the Royal Institute of International Affairs, March 14, 1933.

Shipping Subsidies

Now the legislation of the United States debarb the Union line from taking passengers or freight between Honolulu and San Francisco or Los Angeles, except as part of a through passage to or from another port outside United States territory. At the other end, Australian legislation lays down a like prohibition with regard to transport between one Australian port and another (say, between Sydney and Melbourne). This prohibition applies, it must be observed, to all non-Australian tonnage, whether British or not, and it therefore affects equally the Matson line and its competitors, who are on the New Zealand register. What is really comparable with the Honolulu-California traffic is the passage between Australia and New Zealand, which is open to competition by ships of any flag without discrimination. There has been considerable agitation in New Zealand for the conclusion of an Empire agreement for the reservation of trade between certain ports of the Commonwealth in different Dominions for British ships. At the same time, many interests in Australia are pressing for the modification of the coastal shipping laws in favour of all ships under British flags. Such a measure would be strongly opposed by Labour.

II. POSSIBLE SOLUTIONS

THE problem, however, is too wide to be solved by local expedients or unorganised retaliation. At the World Economic Conference, the delegations of Norway and the Netherlands, supported by the other Scandinavian countries, jointly proposed that

a definite agreement be concluded providing for the abolition, at the earliest moment, of all shipbuilding and shipping subsidies other than such as may be necessary to a State for the maintenance of its sea communications on particular routes and the promotion of particular trades in which the State has special interests.

The exceptions thus allowed would render the agreement altogether valueless. There is scarcely any of the present

Possible Solutions

subsidies which could not be justified in accordance with the above terms, since in the last resort the individual State must be the sole judge of what is necessary for the maintenance of its sea communications or in what trades it has special interests. The proposal of the United Kingdom delegation was more inclusive. They submitted:

(1) That State subsidies for the construction of shipping for, or its maintenance on, competitive routes are uneconomic, can only lead to the granting of similar subsidies by other countries and/or protective measures in respect of shipping, which would deprive world trade of the economic and efficient sea transport it has so far enjoyed, disorganise the world freight market, increase the burdens on national budgets and lessen the power of maritime countries to pay in services for imports and loans.

(2) In these circumstances the countries concerned should move as rapidly as possible towards the diminution and ultimate abolition of State assistance to shipbuilding and ship operation on competitive routes.

The United Kingdom memorandum received a good deal of support, including that of Norway and the Netherlands. The French delegation was of opinion that special cases exist in which national protection of a mercantile marine may be justified and must be regarded as legitimate, but that it cannot be justifiable to practise a policy of "uneconomic" bounties and subsidies.

The representative of the United States made considerable play with the question, what is an "uneconomic" subsidy. He poured scorn on the suggestion that government subsidies were responsible for the loss of equilibrium between world tonnage and traffic. He repudiated the British hint that the policy of subsidies might be regarded as a breach of treaties forswearing discrimination against foreign vessels. United States policy, on the contrary, was directed towards securing equality for American ships, and no more. Congress had had in mind "an equalisation of the costs of constructing and operating American ships and such costs in respect of foreign ships, so that vessels in the United States can compete for both cargo and pas-

Shipping Subsidies

sengers on substantially equal terms with other maritime nations." There could be no clearer admission of the competitive inferiority of the American shipping industry, which has to be heavily subsidised in order to put it on a footing of equality with its competitors. The United States delegate made no bones about it. "The United States," he said, "intends to have a merchant marine."

It is clear, therefore, that world-wide agreement for the reduction and eventual abolition of subsidies is prevented by the intransigent attitude of the United States. That leaves two general courses open to us. The first is to adopt a policy of subsidies ourselves. Nothing could be more foolish. We own nearly twice as much tonnage in service as does the United States. With our far smaller governmental resources, to enter into a campaign of competitive subsidies would be financially disastrous, and could only result in a great increase of the present excess tonnage. The other course is to adopt, in concert with other maritime countries, an international convention which shall interpret the term "discrimination" as it appears in treaties governing shipping legislation. The purpose would be to leave the signatories free to take, if necessary, common or independent action against subsidised shipping, by prohibitions, differential port dues, or other means. It must be emphasised that for us to adopt such a defensive policy without securing the co-operation of other countries would be to cut our own throats. The widest flung merchant marine must also be the most vulnerable. How many countries we could bring in with us it is impossible to say.

Here is a matter, above all things, in which a common Empire policy would be invaluable. The united voice of the whole British Commonwealth is much more likely to be heard than that of the United Kingdom alone. The practical co-operation of a group of nations scattered among the four oceans and possessing nearly one-third of the world's merchant fleets would be an almost certain

Possible Solutions

assurance of success on an issue concerning the terms of traffic by sea. At present, as the reference to the trans-Pacific services has indicated, co-operation is very little and common policy nil. If the nations of the Commonwealth cannot join together on a matter which so vitally affects them all as does the future of the world's mercantile marine, there is little hope of their successful collaboration on political or economic matters which less immediately touch their interests.

There is, moreover, another aspect of the problem which is of critical importance for the whole Commonwealth. Our mercantile marine is an essential part of our defensive equipment. In wartime, our lines of supply are the main artery of our system. The navy itself, which defends our merchant fleet, could not carry on without an adequate supply of merchantmen to furnish it with provisions and bunkers. In the first year of the war, 20 per cent. of British tramp tonnage was placed under direct requisition by the Government, for the transport of troops and the conveyance of military and naval supplies. By 1916 the proportion had risen to 30 per cent. At the end of the war, British ocean-going tonnage amounted to about 18 million tons deadweight, of which 1.8 millions was serving the navy, 2.2 millions the army, and 1.5 millions the military forces of the rest of the Empire. Over 800,000 tons were absorbed in carrying American troops or on other military service for the United States. After allowing for further tonnage not available for importing work (*e.g.*, under repair), there remained 10.3 million tons deadweight which had to supply these islands, and to a large extent our allies as well, with the imported necessities of life.*

These figures are sufficient to show the extreme importance of merchant fleets as an auxiliary to naval and, indeed, all armed forces. In our case, the conclusion is reinforced by the island situation of Great Britain, by the

* *Allied Shipping Control*, by Sir Arthur Salter, pp. 48 and 345.

Shipping Subsidies

great distances that separate her from the Dominions and other parts of the Empire, and by the reliance of her civilian population upon oversea supplies. The pursuit of economic self-sufficiency might therefore diminish rather than enlarge our ocean strength. The facts demand that we should treat shipping subsidies, which constitute so acute a menace to our mercantile marine, as an urgent problem for the whole Commonwealth. Our own position, on the other hand, will help us to understand that of the United States and other naval Powers. The solution of the problem cannot be pursued in the economic field alone.

GREAT BRITAIN : THE GOVERNMENT'S RECORD

I. THE BREAK-UP OF THE CONFERENCE

THE eagerly awaited World Conference has come and gone. For all the doubtless sincere expectations of the Prime Minister that the Conference will reassemble before long and crown its actual endeavours with ultimate success, there is no doubt that the general feeling is one of disappointment. The delegates of the sixty-six nations of the world, assembled in the Geological Museum, have dispersed without achieving the purpose for which they assembled.

Is the British Government to blame? It is argued that, once President Roosevelt had rejected the bankers' stabilisation scheme, the Conference was virtually over. The President's utterances certainly came as a surprise to public opinion in this country. A month earlier he had stated, with all the authority of a presidential broadcast declaration, that exchange stabilisation was one of the Conference's three great objectives. Yet here he was describing immediate exchange stabilisation as "an old fetish of so-called international bankers," and announcing by implication that the United States was indefinitely wedded to "the managed dollar," and that exchange stability depended on the extent to which the rest of the world was prepared to keep step with the price levels of the United States. Little came of the long and laboured attempts made by the American delegates over the transatlantic telephone to extract a modified statement. The President expressed an aspiration for "friendly co-operation"; but that did not alter the fact that "the countries on the gold standard found themselves obliged to declare that, for the time being at any rate, it was impossible for them to take part in any discussion of monetary questions."

But whether the British Government should have accepted the situation as passively as it did has been widely

Great Britain

questioned. Was it for or against the American experiment? Its spokesmen, the critics point out, had said in the clearest possible terms that the Government was working for a rise in prices. This was wholly in accord with the wishes of what Mr. Churchill has christened "the sterling convoy"—the Dominions, the Scandinavian countries, and others—who are wholeheartedly in favour of an active policy to raise prices. How, then, did the Government propose to carry out such a policy? It did not augur well for its endeavours that, in practice, monetary policy has been directed towards stability against the continental gold bloc, with its fundamentally deflationist tendencies. The declaration of monetary and economic policy signed by the Empire delegations to the Conference* was, therefore, warmly welcomed not only within the British Commonwealth but also throughout the sterling group. It atoned in part for the failure of the Conference, since it formed a possible basis for a wider measure of economic co-operation than the declaration itself contemplated as an immediate measure. The co-operation on monetary affairs to which the Dominions and the United Kingdom are now pledged is itself of very great importance. The success of the Canadian Government loan, the first to be floated on the London market since before the war, and the satisfactory conversion of a considerable block of Australia's sterling debt, are notable tokens of the new course that events are taking.

One of the chief lines of criticism of the Government's behaviour at the Conference is to the effect that, in pursuit of its declared policy of price raising, it might have developed plans for international public works on the lines of the MacDonald-Roosevelt manifesto. Instead it seemed to favour the opposite line. It is worth setting down in actual quotations the change in the Government's attitude. At Washington on April 26, Mr. MacDonald and Mr. Roosevelt jointly declared that "enterprise must be stimulated

* See p. 783.

The Break-up of the Conference

by creating conditions favourable to business recovery, and Governments can contribute by the development of appropriate programmes of public expenditure." Mr. Runciman announced at the Conference on July 13, apropos of the Government's public works schemes, "that we shall not reopen those schemes, no matter what may be done elsewhere"; and he asserted that public works, whether in Great Britain or elsewhere, were "the most unremunerative way of dealing with the unemployment problem." It astonished people all the more, therefore, when Mr. MacDonald included in his final presidential speech to the Conference some almost enthusiastic remarks about international policies of public works. He said that a discussion on how the policy of public works could be used

would not only stimulate each nation to do what it can as regards such a policy, but might lead to action regarding large schemes which might benefit groups of nations. . . . Where this policy can be pursued in a businesslike and scientific way, and not merely as uneconomical relief work, it has undoubtedly the advantage of improving prices in the very best possible way—namely, by stimulating consumption.

In a debate in the House of Commons a few days earlier, any suggestion that the Government was divided on this subject was vehemently repudiated, but the clash, in spirit at any rate, between the statements of Mr. MacDonald and Mr. Runciman hardly has the air of complete unanimity.

It is argued that the Government's policy has been not merely inconsistent but weak as well. Whether Great Britain approves or disapproves of the theory of the American experiment, its inception is far the most important event since the beginning of the world slump. Upon its success or failure may well depend the future of society as at present constituted. If it were to fail, the patience of the industrial unemployed and bankrupt primary producers might well give way to some form of reckless direct action. It was of the utmost importance that we should accord the experiment, once launched, every assistance in our power. Great

Great Britain

Britain could have demonstrated that she wished it well while maintaining for her own part an inherently more cautious policy. Instead, it is alleged, the attitude on this side of the ocean has been slightly contemptuous, certainly sceptical, and vaguely discouraging. So argue the malcontents, who are by no means confined to the elements in opposition to the National Government. The last debate of the session on the Economic Conference disclosed that this critical view was shared by a number of the younger Conservatives.

Defenders of the Government against the accusation of weakness argue, on the other hand, that Mr. Roosevelt, by banning stabilisation, prevented an agreement for a general lowering of tariffs. The combination of stabilisation and tariff reduction would undoubtedly have produced a general rise in prices. As to the demand for an alternative policy of price raising by national action, there was patently no need for it. Whether as a result of American action or for other reasons, prices were already rising. Without any specific government action, trade was beginning to improve. Why in the name of common sense, asked people of this way of thinking, interfere with its course just at the moment when the channels were deepening?*

Wherever the fault lies, public opinion will no doubt lay some blame at the door of the Government. The Prime Minister was so very emphatic in his opening statement that the Conference "must not fail." For months the country had looked forward to it as the throwing of a life-line to shipwrecked humanity. It has failed. Rescue has not been effected. The life-line may be thrown again. It is possible that the Conference will reassemble later. That will depend in part on our own policy, in part on the course of world events in the meantime, especially in the United States. In any case, it remains to be seen whether there can be the same determination and enthusiasm behind

* For the view of THE ROUND TABLE on this matter, see p. 731.

The Break-up of the Conference

a later meeting. It is difficult to do these things twice. The National Government was sent back in its overwhelming strength with no less a mandate than to salvage capitalism. The summoning of the World Conference was the grand scale effort to carry out the trust. It will not be surprising if the industrial districts judge by the meagre results of that effort and swing over, so far as the present organisation of industry is concerned, from defence to attack.

The real test of this Government, however, as we have said ever since its inception, is the state of unemployment. The state of trade is examined more particularly elsewhere,* but the improvement mentioned in our last issue undoubtedly has been maintained—otherwise the result of the Economic Conference might not have been taken so calmly. Apart from the decline in unemployment figures, the improvement is evident in a variety of facets of our national life. There was, for instance, a surplus of £688,000 for the month of June on the unemployment insurance fund; in April it was £102,000. The Post Office receipts have always been regarded as a reliable barometer of prosperity. Sir Kingsley Wood forecast in the House of Commons debate on July 24 that the surplus on postal services would show an increase from £10,869,000 to £11,100,000. The unemployment returns continue to make more cheerful reading. Some commentators argue that this improvement is only temporary, being the final harvest of our decision to leave the gold standard in 1931; and that the American inflation will initiate a new drive against British trade. Time will show what truth there is in this contention, but it ignores the importance of the psychological factor in restoring prosperity.

* See p. 823.

Great Britain

II. THE PROBLEMS BEFORE THE GOVERNMENT

NEVERTHELESS the magnitude of the problems with which the Government is faced shows few signs of lessening. As regards the American war debt, it was relieved of its immediate anxieties about the June instalment, but the problem is by no means settled yet. Whatever Mr. Roosevelt's own attitude may be, he has still to persuade an unwilling Congress to agree to terms which Great Britain, France and Italy can accept. In the meantime, while discussions proceed at Washington, with Great Britain in the rôle of debtor, negotiations will have to be opened in Europe with Great Britain in the rôle of creditor.

Again, Ottawa has been causing some disappointment. A strong view has manifested itself in both Houses of Parliament that the Dominions are not carrying out the spirit of the Ottawa Agreements. Complaint is made that the Australian and Canadian tariff boards* have brought about no important reductions of tariffs, whereas dairy produce has been dumped by the Dominions on the United Kingdom market at less than its cost of production. Though Mr. Thomas was able to report an increase of trade with the Dominions, notably with Canada, he did not allay the general feeling of dissatisfaction. Of course, it will not be possible for at least a year to form a decisive opinion about the practical results of the Ottawa conference. Still, it was disquieting to note Mr. Thomas's admission that no actual results had been obtained as yet from any single application made by British manufacturers to the Australian and Canadian tariff boards. On the other hand the government policy of quotas, directed with such assiduity by the Minister of Agriculture, is arousing across the seas similar recriminations about breaches of faith on our part.

* An account of the Australian position will be found on page 895.

The Problems before the Government

One result of Ottawa has been the demise of the Empire Marketing Board. The Government having notified the Dominions that it could no longer bear the whole cost of the Board's work, a representative Imperial Committee on Economic Consultation and Co-operation was set up to consider the whole position.* Their report,† which is regarded by a large body of opinion in this country as somewhat narrowly conceived, recommended the abolition of the Empire Marketing Board, coupled with the transference of most of its activities in the way of scientific research to other bodies, and an extension of the powers of the Imperial Economic Committee. The report has been accepted by the United Kingdom Government, after consultation with the Dominions, and on September 30 the Board is to disappear. The widespread appreciation of its work is shown by the many protests against its destruction. The Trades Union Congress and the Federation of British Industries addressed a memorial to the Prime Minister, expressing their belief

that from the point of view of United Kingdom producers, of producers in the Colonies and in certain Dominions, the work of the Board should be continued and developed on its present lines, any Dominion which was prepared to co-operate being, of course, very welcome.

The Anglo-Irish dispute seems to be as far from a settlement as ever—rumour connected Mr. Havenga's recent visit to Dublin with this question.

With regard to India, though the situation seems tranquil for the moment and the White Paper policy has not received any open reverse in this country, the Government is not yet over the last ditch. The opponents of the White Paper, under the leadership of Mr. Churchill and Lord Lloyd, have been extremely active on the platform and in the press. They have excited the apprehensions of Lancashire, and they seem to have drawn a considerable

* See THE ROUND TABLE, No. 87, June 1932, p. 469.

† Cmd. 4335.

body of Conservative opinion to them. They attempted to force the issue at the meeting of the Union of Conservative Associations in July, but the Government spokesmen pleaded for a reservation of judgment until the Joint Select Committee should have reported. By thus diverting the argument from the direct issue of policy, Mr. Baldwin secured a two to one majority. No doubt this was a victory for the Government, but it was not an endorsement of the White Paper. In submitting their case to the country, the Government are handicapped at the moment by their own proper reticence. The publication of the Committee's report will, however, remove that disability. If it is unanimous, or if the dissent is of a minor character, the Government need have no fears. But if there were to be a very substantial Conservative minority then there is the possibility that the whole party alignment might change. Meanwhile the introduction of the new constitution has been brought a stage nearer by the issue of the report of the Committee which considered the question of a central bank for India. It will be recalled that the first Round Table Conference declared the establishment of a central bank free from political control to be one of the conditions of the grant of responsible government at the centre. A plan has now been put forward.

The menace of Japanese competition, particularly in the textile trade, confronts the Government with another grave problem, though one which need not be discussed here, as it is dealt with elsewhere.* Then there is the problem of unemployment insurance. A temporary measure was passed last June, but that was merely to enable the Government to carry on the present system until its permanent proposals were ready. Their preparation has taken longer than was expected, and they will not be available to Members of Parliament until November 7; they are likely to form the most important constructive measure

* See p. 825.

The Problems before the Government

of the next session. As long ago as April the Government accepted the principle that it should be responsible for assisting all the able-bodied unemployed who need assistance, but it remains to be seen to what extent the scheme will involve a centralised bureaucratic administration, and how far use will be made of local bodies, and what discretion will be left to them. We have so far only been told that it will be one of the functions of the new law "to establish and define the functions of local authorities and the central government in relation to assistance from public funds, whether the funds of local authorities or the funds of the Exchequer." As regards finance, the present block grant paid every year to the local authorities will be readjusted, "since the local authorities will be relieved of a liability to which they have hitherto been subject." The forward-looking Conservatives are most anxious that the Bill should be not merely a reassessment of the dole, but a real reconstruction of the principle of relief. They want, for instance, attendance at instructional centres for young persons in receipt of State relief, and are ready to go a long way in making physical training or attendance at an allotment or some task of that kind obligatory on the unemployed. It is widely felt that, though the element of compulsion would be unpopular at first, the unemployed would in six months begin to realise the benefits of constructive occupation. It is a mental attitude far more than under-nourishment that is sapping the manhood of the nation. It is, at all events, clear from the statement of the Minister of Health on April 12 that the need for protecting the unemployed against the ill-effects of idleness by training, occupation or recreation has not been overlooked.

The Government also proposes in its new measure to make some allowance on a regular basis for the special necessities of the distressed areas—an interim grant of £500,000 was made to them early in July in relief of the rates.

Great Britain

III. THE ACHIEVEMENTS OF THE GOVERNMENT

BUT these are the constructive tasks of the future. What has the summer session to show in actual achievement? It is a record that is respectable if unexciting. First to take external affairs. The Four Power Pact is regarded by most informed observers as a step in the right direction. After the Nazi revolution there was a real danger of Europe's drifting back into the old system of two armed hostile camps. The present Austro-German crisis has put a heavy strain upon the Pact, but, if this difficulty can be overcome, it should at least ensure the maintenance of touch between the four great Powers, and touch counts for a good deal in such an atmosphere as exists at present in Europe. It may even lead to improved relations between Italy and France, and prevent Franco-German relations from getting worse.

The Russian quarrel has also been made up. It may be, as their critics say, that if the Government had waited a day or two last April, the sentences on Mr. Thornton and Mr. Macdonald, the two Metropolitan-Vickers engineers, would have been revised, and that it was at all events worth while waiting before imposing the embargo. However that may be, the matter has now been settled; the engineers are home again and the negotiations for a commercial treaty with Russia have been once again renewed. In the matter of disarmament the Government can claim the credit for putting forward a scheme which kept the Conference from drifting towards a breakdown, and which may still form the basis for an agreement, though alarm was created in all parties by the endeavour of our representatives at Geneva to keep alive our right to use bombing aeroplanes for police purposes in the outposts of the Empire, in spite of the fact that our own scheme proposed to abolish bombing from the air in warfare

The Achievements of the Government

generally. Sir Austen Chamberlain, who has increased his prestige as a friendly critic of the Government, made a powerful plea for the reconsideration of this attitude, and Captain Eden gave an explicit assurance that the Government would not allow a disarmament convention for the abolition of aerial warfare to be wrecked by this reservation. Before leaving external affairs, we may mention that the tariff truce made at the commencement of the World Conference still continues, and the Government is adhering to it, in spite of the clamour of the extreme protectionists.

In domestic affairs there has been some useful legislation. In the teeth of strong opposition from heavily entrenched interests, the Road and Rail Traffic Bill has been successfully piloted through to the Statute Book, and a London Passenger Traffic Bill has also passed into law. Practically all the London tramways, omnibuses and underground railways are now merged in a single public corporation, under a board of which Lord Ashfield is chairman. Then there has been the reorganisation of the police force following on the lines of Lord Trenchard's report. It is designed to make promotion quicker and it paves the way for the creation of an officer class. The proposal to restrict the term of enlistment to 10 years, though it has obvious advantages in the way of pension economies, has been the target of much hostile criticism. It is felt by some that the shorter period of service will expose men, who at thirty will be thrown upon an inhospitable labour market, to temptations to corruption.

More important constructive proposals have relation to housing and agricultural marketing.

The Government's policy on housing was stated by the Minister of Health to be "the stimulus of private enterprise and the restoration of the normal forces of supply, thereby securing an increase of the small houses to be let, coupled with a great direct attack on the crying evil of the slums." It will be remembered that, although the

Great Britain

"Wheatley" subsidy to local authorities for the building of class C houses (the better class of workman's house) has been abolished under the Government's Housing Act, they have retained the rehousing subsidy of £15 per annum payable under the "Greenwood" Act of 1930 in connection with slum clearance schemes. Encouragement has also been given to local authorities to borrow money for rehousing purposes. The principle of the Government's policy is that, as costs in the building trade have fallen low enough for unassisted private enterprise to supply the deficiency of class C houses—a point which has been questioned by commentators like Mr. Rowntree and Sir E. D. Simon—the energies and finances of local and national governments can be concentrated on a direct attack on the slum problem. So far, however, the "drive" for slum clearance, which is supported by all parties, has existed only on paper. The local authorities have to submit their plans for a five-year programme by the end of September, and not until then will the extent of the response be known. But plans already notified to the Ministry have led the latter to estimate that next year the rate of clearance will be 24,000 houses a year, against a present rate of 12,500 a year.

In the meantime, Lord Moyne's departmental committee on housing has made some far-reaching proposals with regard to the reconditioning of semi-slum houses. The Committee was appointed to consider what further steps should be taken to maintain a proper standard of fitness in working class houses, which are not in an area suitable for clearance and demolition under the 1930 Housing Act; it was further to advise what should be done "to promote the supply of working class houses without public charge, through the agency of public utility societies or other bodies." The Committee recommends a grant of compulsory powers to local authorities to acquire houses of this kind provided that they have a prospective life of 20 years, at the price or value at which they last changed hands. They would then be handed over to local public utility

The Achievements of the Government

societies to recondition and manage on Octavia Hill lines, women being, wherever possible, employed as housing estate managers. Social service in business was the spirit underlying Miss Octavia Hill's principles, and applied to housing estate management it meant personal touch with the occupant, and the development of an atmosphere of good will and co-operation. If there is no local public utility society, the houses acquired are, under the Committee's scheme, to be leased to House Management Commissioners, or, if there are no Commissioners, they are to be held, repaired and managed by the local authority itself. Over this local machinery there is to be established a central public utility council. According to the Committee's proposals the Minister of Health would be authorised not only to advance the whole of the purchase price and the cost of reconditioning, but also to endow the public utility societies with the powers of local authorities, should the latter delay or decline to acquire unfit houses for the societies. It is further suggested that rehousing subsidies of £12 and £5 a year respectively for 60 years should be provided for tenements and new accommodation, subject to conditions with regard to rent and to the reduction of the subsidies in certain circumstances. The cost of providing accommodation to obviate overcrowding would also be advanced—normally the advance would be limited to 90 per cent., and the balance of 10 per cent. raised by issuing shares with a maximum yield of 5 per cent.

The Committee did not adopt the proposal that a National Housing Corporation should be created to deal with the question of building new houses.* For one thing, it considered that the terms of reference did not cover this question. It is impossible here to deal with the arguments in favour of such a corporation, or the reasons which made

* It has been estimated by Mr. B. S. Rowntree that there is a present shortage of 750,000 houses, which would be raised to 1,500,000 if bad or insanitary dwellings were included.

Great Britain

the Committee dubious about its advantages. It is, however, worth noticing that the Committee itself has applied the principle of centralisation to a particular side of the work—reconditioning. Doubts have been expressed about the fairness of the proposed basis of compensation on the ground that it favours the owner who has neglected his property.

The Ministry of Agriculture has been very active of late. Major Elliot is a firm believer in "the economics of glut," and is busy enforcing the restriction of supplies in order to restore agricultural prices to profitable levels. The principle of regulation of supplies is now to be applied not merely to wheat and meat, but also to hops, bacon, other pig products and fish. In the closing week of the session, the Minister of Agriculture obtained powers to impose similar regulation upon the milk industry. Under any scheme framed under the Agricultural Marketing Act, upon representations being made by the Minister, the Board of Trade can issue an order for the curtailment of imports. The first step in each case under the Act, which received a third reading on May 30, is that the farmers whom the scheme is designed to benefit must ask the Minister to prepare a scheme or themselves place a marketing scheme before him. Next, a public inquiry is held, on the basis of which the Minister submits a revised scheme for affirmative approval by Parliament; and the scheme has further to pass the test of a poll of those affected. These conditions fulfilled, however, the Minister has very wide powers of issuing orders and decrees within the terms of the scheme and of the Act.

These powers have been denounced as equivalent to dictatorship. It should, however, be mentioned that a modification of the Minister's powers now enables an order to be challenged within 25 days of its issue. But the position still is that thereafter, whatever blemishes may reveal themselves, there will be no legal right of challenge.

Whatever may be said, however, of Major Elliot's ways,

The Position of Parties

no one has ever accused the Cabinet of Hitlerism. The defect, indeed, most commonly imputed to the National Government, especially since the Economic Conference, is a lack of the quality of leadership—irresolution, after all, is the besetting sin of coalitions. This one will be closely watched in the coming year.

IV. THE POSITION OF PARTIES

IT is indicative of the trend of opinion in the Labour party that this symptom of incipient dictatorship called forth no protest from the official Opposition. Sir Stafford Cripps, indeed, in his enthusiasm for bringing the Socialist State into being by emergency decree on the lines of the Nazi régime in Germany, is gleefully marking every occasion when the National Government resorts to orders in council. But the opposition of the trade union element to this point of view is growing. The Nazi revolution has had a deep effect upon Labour here. There is as great a hatred of dictatorship, as now established in Germany, as ever there was in pre-war days of the autocracy of the Tsar. There is also a definite fear of the electoral consequences of the cry, which the opponents of the Cripps group will be able to raise, that liberty is in danger. It is a struggle between the old radicalism of the working classes and the new socialism of the intellectuals for the soul of the Labour movement. The election of Mr. Arthur Henderson at the forthcoming Clay Cross by-election, which, judging from the electoral history of this Derbyshire mining division, should be as certain as anything can be in politics, would strengthen the liberalising influences in the Parliamentary Labour party. Perhaps it will also give renewed energy to the international standpoint, though, in contradistinction to what has happened in France, this has not been greatly weakened here by the events in Germany and the failure of the World Conference.

Great Britain

It is upon Mr. Lloyd George that the new nationalism has apparently had the profoundest effect. The sensation of the debate on the results of the Economic Conference was the speech in which he admitted that the method of international conference had failed, that the era of international trade was over, and that we must contrive to live for a time at any rate on our home market. His remedy was a concentration on agricultural revival, to be achieved by revising the Ottawa Agreements so as to protect the British farmers against the ruinous competition of the Dominions, and a land colonisation scheme, involving the settlement of half a million families on the land. It was a remarkable utterance coming from a man who, both at the election and since, has declared himself an unrepentant free trader and has taunted his Liberal friends with the compromise that they have made with protection by remaining in the Government after the introduction of the Import Duties Act and not going into definite opposition after Ottawa. Perhaps the most significant portion of his speech—in the effect that it may have on the future fortunes of parties—was the minute that he gave to the Indian problem. Quite incidentally he remarked in the course of his general criticism of the conference method :

I am not satisfied with the Conferences about India. I view them with considerable dubiety and anxiety, and I do not believe that that is the best method of settling that question ; but that is by the way.

This passage has been taken to mean that although Mr. Lloyd George, as he himself declares, has not adopted the Churchill point of view, he has gone a considerable way in that direction. It has certainly made a bridge possible between himself and the dissident Conservatives, and the whole speech may have a profound effect on the future alignment of parties. The idea of a second coalition emerging out of this National Government, with a triumvirate of "strong men," Mr. Churchill, Sir Robert Horne, and Mr. Lloyd George, at its head, has always been a bare

The Position of Parties

possibility. It may be found that Mr. Lloyd George's speech has put it further on the map.

The gulf in the Conservative party on the India question, which was described in our last issue, does not grow narrower. The annual conference of the Conservative party in Birmingham in the first week in October will afford another opportunity for a frontal attack on the policy of the Government.

An open split in the Conservative forces might bring the younger Conservatives, who are enthusiasts for national reconstruction, into the same camp as the Liberals. The latter are still racked with dissensions, though the conversion of Mr. Lloyd George to economic nationalism removes one disruptive influence in the free trade ranks. A coalition of the forces of the left centre has been with most of them a long cherished hope.

But these are speculations about the future. For the moment party alignments to the outward eye show little sign of substantial alteration, either in the House of Commons or the country. The figures of the Altrincham by-election in June, where the Government candidate, Sir Edward Grigg, triumphed by 8,000 votes, show very little change in the balance of parties since the seat was last contested. The fact is that the Government's record, though it has inspired no particular enthusiasm, has not produced any deep resentment.

But the third year of its life is now opening. It is then that Governments are expected to produce their most important constructive work.

THE IRISH FREE STATE : OURSELVES ALONE

I. THE BUDGET

MR. MACENTEE'S second budget, which he introduced in the Dail on May 10, agreeably surprised the taxpayer, and the pessimists, who had prophesied, amongst other misfortunes, an increase in the income tax and surtax and a special tax on British dividends, were confounded. But in other directions it gave no grounds for hope or satisfaction. Indirect taxation was increased by a further crop of new tariffs, to the periodical arrival of which we have now become accustomed, if not reconciled. These include a tariff of two-fifths of a penny on imported daily newspapers, which is a sop to obscurantism, and will not only produce revenue but tax information ; a 50 per cent. tariff on mineral hydro-carbon oil ; a 60 per cent. tariff on women's coats, wraps and costumes made from woven tissues of wool or worsted ; tariffs on certain imported fruits which are home-grown, and on a large and miscellaneous list of articles, ranging from teapots to footballs and feeding bottles. For some mysterious reason, imperial preference is still conceded. The complete remission of the duty on home-grown tobacco, which was granted by the Government last year in order to encourage its cultivation in the Free State, has proved so successful that if not checked the indispensable revenue from that source would, as Mr. MacEntee humorously explained, end in Irish tobacco smoke. He consequently re-imposed an excise duty of 6s. 8d. a pound on all Irish-grown tobacco from January 1, 1934.

In his review of the year he said that in some respects conditions in the Free State had been as bad as elsewhere, in some they had been better, but they had been worse in none. Alone among States, the Free State had been able to extinguish its floating debt, and to reduce substantially the volume of unemployment. Furthermore, although the

The Budget

year had been filled with difficulties, there had been an extraordinary expansion in their domestic commerce. The figures he disclosed do not, however, justify any kind of optimism, for they show a widening gap between income and expenditure. Last year the total national expenditure was £28,849,739; this year it will be £31,529,220. Last year's revenue came to £29,990,935; this year it will not exceed £26,440,000. In other words, the unfortunate taxpayer will be hit both ways, because expenditure will be increased by £2,679,481 and revenue decreased by £3,550,935. Last year there was an actual surplus of £1,141,196, which, of course, included the land annuities and other payments withheld from Great Britain, amounting to approximately £5,000,000; this year, even after again appropriating these withheld payments, Mr. MacEntee budgets for a deficiency of £5,089,220. This he proposes to meet by taking last year's surplus, £1,141,000, by borrowing £3,166,000, by making an allowance of £388,220 for over-estimation, by cuts of £270,000 in civil service salaries, and by using the proceeds of new tariffs, £140,000, leaving him a modest estimated surplus of £16,000. £1,225,000 of the proposed loan is to be used to defray one-half of the cost of the export bounties arising out of the dispute with Great Britain, and the balance, £1,941,000, to meet the cost of other services. As against this loan Mr. MacEntee stated that certain undefined assets had been created, presumably the payments withheld from Great Britain, and he apparently considers that future generations must bear some portion of the cost of the "economic war," even though these assets may prove illusory.

No doubt the Government will be able to raise the amount required, as there is still plenty of cheap money in the Irish banks, and the immediate success of the loans raised recently by the Dublin and Cork corporations proves that it can be borrowed on advantageous terms. But the figures given above of national revenue and expenditure do not make cheerful reading, and cannot be reconciled with

The Irish Free State

the promises made by the Fianna Fail party when in opposition that they would reduce taxation by not less than £2 million a year. They have, in fact, increased it by nearly £4 million. This inconsistency will, no doubt, be forgotten and forgiven by their more irresponsible followers, who will benefit by the following amounts: £450,000 to provide for the relief of unemployment, £150,000 for the development of bogs and the organisation of the peat industry, £100,000 for milk for necessitous children and £25,000 for free fuel in necessitous homes. These grants are, of course, designed to placate the Labour party, although, indeed, Mr. MacEntee declared that it had always been the policy of his party, within the limits necessarily set by the resources of the community, that the government of a Christian State ought to provide maintenance for all citizens who might be in want by reason of the State's inability so to order its life as to make work available for all who were willing and able to do it. These sentiments, admirable in themselves, would hardly seem to bear application in a situation in which the Government deliberately creates economic disturbance and unemployment, such as have arisen out of the "economic war" with Great Britain, and then seeks to remedy its own wrong-doing by increased taxation, which the taxpayer can meet only by reducing his expenditure and so further increasing unemployment. This is merely a vicious circle which can only end in national disaster.

Mr. MacEntee disclosed the fact that the special retaliatory emergency duties, which had been imposed on British products such as coal and cement, had yielded £326,000, and that the other protective duties imposed last year had realised less than half the sum estimated. Revenue during the year had, in almost every other item, exceeded the estimate. In regard to excess profits duty, he announced that the Government proposed to take further steps to collect it from all persons who were liable and had succeeded in avoiding payment. This process has already

National Self-Sufficiency

begun, and is not likely to increase the Government's popularity amongst the business community. Winding up the budget debate, Mr. de Valera said that the conflict with Great Britain had driven the Free State Government along the road of national self-sufficiency rather faster than it would have gone otherwise, but that there was a consciousness that it was being driven along the right road. How much further we can go along that road we must apparently wait for next year's budget to find out, for this year's certainly envisages no end to the disastrous expedition.

II. NATIONAL SELF-SUFFICIENCY

DR. SCHACHT, the president of the German Reichsbank, recently stated in New York that there were two ways out of the present world crisis. One was the separation of nations from each other, leading to lower standards of living, the other was international co-operation in opening up new markets. There was the choice: separation and poverty or co-operation and prosperity. There can be no doubt as to the way Mr. de Valera has chosen. His whole policy aims at national self-sufficiency and separation. Neither can there be any doubt as to the result. The trade figures recently published show that for the year ending in May, 1933, the total commerce of the Free State has fallen by £26 million. In proportion to the total volume of trade, which is little more than two-thirds of what it was in the preceding year, the adverse balance has risen by about 30 per cent. In the first five months of this year, as compared with the corresponding period of last year, exports of live animals fell from nearly £6 million in value to just over £3 million. In the month of May alone their value fell by half. For every form of live stock there has been a ruinous fall of price. In dry cattle alone the Free State farmer has suffered an estimated capital loss of £10 million, and in income a loss of at least £7½ million.

The Irish Free State

Lecturing at University College, Dublin, on April 19, Mr. J. Maynard Keynes, who had taken as his subject "National Self-Sufficiency," and who spoke in the presence of Mr. de Valera, ventured to give his views on Free State conditions. If he were an Irishman, he said, he would find much to attract him in the Government's striving after greater self-sufficiency; but, as a practical man, who considered poverty and insecurity of life to be great evils, he would wish, first, to satisfy himself on two matters. He would ask if Ireland was sufficiently large for more than a very modest measure of self-sufficiency to be feasible without a disastrous reduction in a standard of life which was already none too high. He believed that the answer would be that it would be an act of high wisdom on the part of the Irish to enter into an economic arrangement with England which, within certain appropriate limits, would retain for Ireland her traditional British market, against mutual advantages for British producers. He would see nothing derogatory in such a policy to political or cultural autonomy, but would regard it as an act of common sense. To-day it was not too late to accomplish such a policy, but every delay would make it more difficult, inasmuch as the exclusion of Ireland's agricultural produce suited the present trend of agricultural policy in Great Britain. If, on the other hand, he were to reject this plan deliberately, for a complexity of reasons, and decide to work out the destiny of the Free State on other lines, he would sit down to the problem with the best brains that he could command to work out a slow series of experiments. No man had a right to gamble with the resources of a people by going blindly into technical changes imperfectly understood. Russia stood as an awful example of the ruin and desolation that ill-judged and obstinate experiments could work in an agricultural country, so that people were starving to-day in what was once one of the greatest food-producing areas in the world. He warned his audience, in conclusion, of the three outstanding dangers in economic

National Self-Sufficiency

nationalism, the silliness of the doctrinaire, insane and unnecessary haste and, worst of all, intolerance and the stifling of instructed criticism.

Another economist, Mr. Joseph Johnston, who is Lecturer in applied economics at Trinity College, Dublin, and therefore a domestic critic, has recently pointed out that the final effect of the present "economic war" between Great Britain and the Irish Free State must be to drive Irish agriculture back to a semi-medieval régime of bare self-sufficiency, and to destroy our mechanism of exchange, together with the livelihood of nearly half a million urban residents. A foreign Government has given the Free State farmer a black eye by its tariff policy. His own Government retaliates with a tariff policy which blackens his other eye and thus restores the balance.

But, not content with depriving the farmer of his only market, the Government now proposes to take his land. The big farmers are to be dispossessed on a sweeping scale in order to create small holdings for landless men. Dr. Ryan, the Minister for Agriculture, states that land will be taken from men who complain that they are losing by farming—and who is not under present conditions?—but it will not be taken from a good employer, even though his holding is large. The new Land Bill, which implements this policy, confers sweeping and autocratic powers on the Minister for Lands and Fisheries and the Land Commission, and definitely destroys the security of tenure which seventy years of legislation had gained for the Irish farmer, and to create which Parnell and Redmond devoted their lives. If these powers are used, as is only too probable, to reward the Government's landless supporters, then we may look forward to a bitter, and perhaps bloody, struggle, for the big farmers will not give up their land without a fight. Even in the Government party itself there is serious criticism of the proposals contained in the Bill. How far the dry rot of dishonesty has penetrated our people's character is shown by the fact that the Bill

The Irish Free State

cancels all arrears of land annuities over three years due, thus rewarding those who did not pay, and gives the Land Commission power to issue directly to the sheriff, without the intervention of a court, a warrant to levy for future payments. This procedure, according to the official statement, "will be easier, quicker, and less expensive to the defaulters"—in fact it may be described as painless extraction.

The necessity for such peremptory methods will unfortunately be only too probable when the Government again seeks to collect the reduced land annuities. The farmers are indeed already in revolt against the payment of the increased local rates, and the Government had to take mandamus proceedings in the High Court against the Dublin and Cork county councils to compel them to strike a sufficient rate for the current financial year. To cripple the political power of the large farmer the Government has introduced a Bill to convert the present local government register, which is limited to rated occupiers, into an adult franchise roll. It hopes by this means to obtain control over the local bodies. The Senate has, however, rejected this measure and it is, therefore, held up for eighteen months. The recent Dublin municipal election, in which the Fianna Fail party was defeated in spite of strenuous efforts, proves that the more responsible voters have no sympathy with the Government's policy. But, amongst the small farmers and irresponsibles, there is a tendency to move even further to the left. A body, known as the United Farmers' Protection Society, who object to the attempts of the Irish banks to secure payment of their debts, has suggested that the I.R.A. should be given a mandate to protect the farmers against the banks. That this request will not fall on deaf ears is shown by the tirades of *An Poblacht*, the Republican organ, which claims that the agricultural community now finds itself in bondage to the banks, which are part of the British financial system. The banks, in fact, have promised to consider each case

National Self-Sufficiency

of farmers' "frozen debts" on its merits, which the Government considers satisfactory. It might be well for its critics to consider what position an independent Irish currency would occupy in the present unstable financial world. It would certainly complete our segregation from outside influences.

Meanwhile our cattle prices have sunk from 45s. per cwt. in June, 1931, to 25s. per cwt. in May, 1933—a fall of £1. In London, for the same period, a fall of only 8s. is shown. No wonder that the Germans, in return for the free entry of German coal into the Free State, have agreed to purchase some 6,000 cattle at these prices, an arrangement which is, of course, of no real benefit to our farmers. Our pig population is already decreasing, as the farmers do not find pig-rearing remunerative, and under the new British bacon quota scheme they will find it even less so. To meet this quota difficulty the Government has introduced a Bill to regulate the export of any agricultural product which is made the subject of such a quota system by another country. To finance industrial development, it has introduced the Industrial Credit Bill, under which it is proposed to set up a corporation, with a capital of £5 million, which will be issued from time to time, as necessity arises. Under this scheme it is proposed to establish a number of important new industries, such as the manufacture of industrial alcohol and cement, paper-making, and mining. Irish investors are expected to subscribe the capital. The Minister for Finance is given power to underwrite and take up such shares as have not been subscribed for by the public. There are no underwriting companies or issuing houses in the Free State, and, to that extent, the new corporation will be useful, always provided that the capital subscribed is not wasted on uneconomic and wild-cat projects. The history of the loans made by the Cosgrave Government under the Trade Loans Guarantee Act proves that it is easy to lend money for industrial development, but very difficult to secure its

The Irish Free State

repayment. In short, Irish industry is more in need of confidence than capital; but this the Government has almost entirely destroyed by its attempt to reverse the country's economic policy by hasty and unsuitable methods. Protection and the exclusion of foreign capital having both failed to stimulate local enterprise, the Government itself now proposes to enter the industrial arena—a doubtful and dangerous experiment.

At the end of May Mr. de Valera paid a visit to Rome, where he was received by the Pope and Signor Mussolini. On his return he spoke at the American Club in Paris, on June 8, and stated that his policy was to abolish free trade, to provide work for the 30,000 young people who formerly would have emigrated, to build 10,000 houses and divide half a million acres of land within five years. Every thirty acres of land would represent a new family. The Irish people understood that policy, and were prepared to suffer in the initial stages, as they saw the prospects of ultimate success.

The necessity for such suffering is, indeed, one of Mr. de Valera's principal oratorical themes, and probably accounts for the fact that his Government, unlike that of Russia, has not seized the opportunity presented by the Economic Conference to compose its differences with Great Britain. It is noteworthy that neither Dr. Ryan, the Minister for Agriculture, nor Mr. Lemass, the Minister for Industry and Commerce (both of whom took part in the private negotiations with Mr. Thomas at Ottawa) represented the Free State on that occasion. Their place was taken by Senator Connolly, the Minister for Lands and Fisheries, who is Mr. de Valera's right hand man and believed to share his views. His principal contribution to the proceedings was a complaint concerning the conduct of Great Britain in seeking to recover the land annuities by means of punitive tariffs, which he contrasted with the attitude she took up in her arrangements with the United States; and he asked how agreement could be

National Self-Sufficiency

reached on tariffs or tariff policy whilst such conflicts existed. It is unfortunately only too clear that a settlement of this miserable and unnecessary dispute is not to be reached on these lines.

Meanwhile, the opposition parties have not been silent. Speaking at Bandon on May 20, Mr. Frank MacDermot, the leader of the Centre party, enumerated what he described as the seven deadly sins of the Fianna Fail party. It was, he said, a constructive party which pulls down our fundamental industry; a prosperity party which increases unemployment; an economy party which adds millions to expenditure; a liberty party which thrives on intimidation; a Gaelic culture and civilisation party which truckles to ignorance and intolerance, and delights in buffoonery and personal abuse; an anti-partition party which is out to perpetuate partition; and a republican party which will not give us a republic. Mr. Cosgrave pointed out, at his party convention on May 2, that talk of a republic brings but one certain result—the indefinite postponement of any hope of a united Ireland. At Ferns on June 15 he also delivered an exhaustive indictment of the Government's policy, which, he stated, grievously affected the livelihood, the hopes, and the ideals of the entire community. Failure to agree on the composition of a legal tribunal to pronounce judgment on the legal points at issue with Great Britain must, he said, be admitted. The only hope of settling the dispute was an honest conference with the British Government.

But unless the various opposition parties are prepared to sink their differences and form a new national party on a broad basis, there is every possibility that they will be destroyed one by one. The Lord Mayor of Dublin, Alderman Alfred Byrne, T.D., who has just been re-elected to that office by a large majority, advocated the establishment of such a party before the last general election, but the project came to nothing.* Whether this failure was due

* See THE ROUND TABLE, No. 90, March 1933, p. 295.

The Irish Free State

to personal or political differences it is difficult to say, but it is hard to understand why politicians as shrewd and sensible as Mr. Cosgrave and Mr. MacDermot undoubtedly are cannot agree upon a common policy for the supreme purpose of saving the country from disaster. Both the Cumann na nGaedheal and Centre parties have fulfilled their purpose, and should immediately be replaced by a new and efficient organisation, with a programme broad enough to enlist the support of all the moderate and constructive elements in the country. Failing some such solution, the result of the next election will probably complete their downfall, and the inevitable rise of new forces, far more extreme than Mr. de Valera's party, will follow.

That Mr. de Valera may spring such an election on the country in the near future is by no means improbable. At the moment he is busily engaged upon an effort to curtail further the powers of the Senate. At present that body can hold up the operation of any Bill, other than a money Bill, for eighteen months, unless a general election intervenes. The Government has now introduced a Bill which will reduce the period of delay to three months, and the Senate, to postpone the evil day, has referred it to a committee of both Houses. It cannot, however, reject the money Bill, which the Government has also introduced, to provide for the repayment of the loan raised in America by the pre-Treaty Republican Government in 1920-21. The debates on this Bill in the Dail have been both rancorous and unedifying. Mr. de Valera himself holds a portion of this loan, as trustee, for the development of his party newspaper, *The Irish Press*, and, during the debate, it was stated that he would in that capacity receive about £100,000 as a result of the proposed repayment.* As *The Irish Press* has made a loss of £59,386 for the period from September, 1931, to December, 1932, this contribution to its support will be of vital importance to Mr. de Valera's party, to whom this newspaper is an

* See THE ROUND TABLE, No. 91, June 1933, p. 641.

Republican Designs and Dissensions

enormous asset. It could hardly survive otherwise. Amendments were proposed by the Cosgrave party to ensure that the loan should only be repaid to the original bondholders, from some of whom Mr. de Valera obtained the assignment of the bonds he now holds, for the purpose of starting *The Irish Press*, but these were defeated, and the loan will, no doubt, soon be repaid, although, as has already been pointed out, the obligation to repay it does not mature until the establishment of an Irish republic. Mr. de Valera of course personally obtains no benefit from the transaction, but it is undeniable that his party newspaper will gain an enormous advantage from this premature repayment of the loan out of public funds. That his enemies have to digest this gall and wormwood is, he avers, the supreme pleasure of his life.

III. REPUBLICAN DESIGNS AND DISSENSIONS

SPEAKING at the grave-side of the executed leaders of the 1916 rebellion in Arbour Hill Barracks, Dublin, on April 23, Mr. de Valera said that the time had not yet come for the declaration of a republic. They must content themselves with the statement that it was for that goal that they strove, and that they would not rest until they had reached it. He said that they should remove one by one any forms or symbols that were out of keeping with Ireland's rights as a sovereign nation, so that their State might be a republic in fact, and that, when the time came, the proclaiming of a republic might involve no more than a ceremony—the formal confirmation of a status already obtained. He has promised, however, that, as far as he is concerned, the Irish people will be consulted before a republic is actually proclaimed. But it is well to remember that when Mr. de Valera talks about a republic he does not mean quite the same thing as the Irish Republican Army does. Quite recently he stated in an interview that he personally

The Irish Free State

thought that an Irish republic could be associated with the British Commonwealth of Nations, if such an association were desired by the Irish people. This is, of course, the principle of external association embodied in the famous Document Number 2, for which he turned down the Treaty of 1921 and plunged the country into civil war, and which, apparently, still remains his real aim. It was to further this aim that he removed the oath of allegiance, an action which, he believes, will cause a complete change of attitude on the part of the people of this country, and enable the extreme element to enter the Dail. He has recently stated in the Dail that any military organisation outside the national army is no longer justified on any basis whatever, and that any government would be guilty of a grave dereliction of duty if it were to permit any such thing to go unchecked.

But the I.R.A. have no intention of handing in their guns. A statement issued by their Army Council on Easter Sunday insists on the natural right of Irishmen to organise, train and arm for national independence. When the nation is free, they declare, it will be time enough for the Government to control the military forces, to maintain its freedom, sovereignty and unity. Only by revolutionary action can national freedom be achieved. And their official organ, *An Poblacht*, pertinently inquires of Mr. de Valera, without receiving a reply, whether his aim is merely to prune the Treaty, or to establish a republic. Legally and theoretically they claim that his Government is in the same position as that of Mr. Cosgrave. In this they partially agree with Lord Hailsham, who stated in the House of Lords on May 11 that the removal of the oath had no effect on the Treaty, or any Article of the Treaty. Every citizen of the Irish Free State was born within the King's allegiance, and no one born within the King's allegiance could get rid of that fact and the obligations which it involved. A treaty entered into between two nations could not be altered without the consent of both, and any

Republican Designs and Dissensions

attempt made by one of the parties to make any alteration in it was inoperative without the consent of the other.

But the I.R.A. have not confined their activities to manifestos ; they have also indulged in overt acts of the most provocative kind. All over the country drilling is now being openly carried on, and arms are undoubtedly being landed. Men carrying machine-guns have appeared in the streets of Dublin. Seventy men, armed with rifles and two Lewis guns, recently took forcible possession of an unoccupied house in West Cork for a week-end whilst they carried out military exercises. The men who do these things are well known to the police and the entire countryside, but no attempt is made to interfere with or apprehend them. On the contrary, the Government seems to pursue an ostrich-like policy of pretending that nothing is happening. One example of its weakness may be cited. A man called John O'Connor, of Tralee, was indicted on April 25 for the unlawful possession of fire-arms and sent back to jail for refusing to plead. On the following day he went on hunger strike, and on May 1 he was released, at the request of the judge who sentenced him, who had been obviously compelled to take this course in order to save the Government's face. Subsequently, the Government withdrew the proceedings against him, being apparently afraid to enforce the law. A few days later the same judge was publicly insulted in his court and dared not punish the offender. Terrorism of jurymen is once more rife, and juries have practically ceased to convict in cases bearing a political complexion. On July 16 the house of a Civic Guard superintendent at Drogheda, who had prosecuted members of the I.R.A. for various offences, was riddled with bullets fired from a machine gun.

As regards the Army Comrades Association, the anti-communist organisation started by Dr. O'Higgins, a Cosgrave deputy and brother of Kevin O'Higgins, to maintain free speech, the Government takes quite a different attitude. Mr. de Valera announced in the Dail on July 14

The Irish Free State

that the Government would not allow any organisation to parade in uniform, and this indicates that it apparently intends to proclaim or prevent the demonstration in honour of Griffiths and Collins which the A.C.A. propose to hold in Dublin and at which their blue shirt uniform is to be worn. Such interference might easily lead to serious trouble.* At a convention, held in Dublin on July 20, the name of the A.C.A. was changed to the National Guard, and General Eoin O'Duffy, who was recently removed by the Government from the command of the Civic Guard, was unanimously chosen as its leader, in place of Dr. T. F. O'Higgins, T.D., who had resigned. In his inaugural address General O'Duffy declared that the aim of the National Guard was to safeguard the national honour, the national interests, and the national culture in the widest sense, and he promised that they would keep within the law.

Under such conditions it is no wonder that the executive committee of the communist international recently decided to create "a new independent Irish communist party," whose programme includes as immediate tasks the undermining of Mr. de Valera's popularity, anti-religious agitation, anti-British propaganda, and the preparation of a revolutionary upheaval to overthrow the present Government and establish an All-Ireland Soviet republic. A communist conference for this purpose was actually held in Dublin, on June 4, and Mr. Sean Murray, one of the leaders of the new party, after proclaiming freedom of thought for all religious denominations in the new party, said that they proposed to confiscate all capitalist property in Ireland, but would not interfere with tenant farmers or small shop-keepers, whose business did not come within the capitalist category. The I.R.A. thought it safer, however, to disclaim officially any connection with this communist development, to which it ascribed a "dogma of atheism." The "Communist party" has retorted by a

* The demonstration was proclaimed under the Public Safety Act, and abandoned.

Republican Designs and Dissensions

sarcastic statement, in which it declares that there is not a grain of communism in the present policy of the I.R.A. Council, but that 50 per cent. of the delegates to the communist congress were members of the I.R.A.

There is no doubt that these events have thoroughly alarmed the Catholic hierarchy, and several bishops have delivered individual pronouncements, warning their people against joining the I.R.A., and denouncing its activities. Cardinal MacRory, the Catholic Primate, on his return in June from Liverpool, where he acted as Papal Legate at the consecration of Liverpool Cathedral, took the opportunity to point out that God set these two islands together, but man had succeeded for a long time in keeping them apart. The English did not hate the Irish. They loved them. It was a pity that the two Governments did not come together. He hoped some means might be found that would set these two nations into that friendly relationship which ought to exist between them. This Christian statement only provoked a republican demand for an intensification of the struggle. But far more indignation was aroused in the extremist camp by the contemptuous references of Dr. O'Doherty, the Bishop of Galway, to past and present Irish patriots. Having stated that the I.R.A. was responsible for murder, he proceeded to refer to the "cabbage garden plot" of the '48 rebellion, to "Emmett's rabble" and to "cut-throat Tone." Utterances of this kind are of little use, and merely enable the I.R.A. to claim that the Catholic hierarchy has always been opposed to the movement for complete independence. The bishops must be prepared actively to educate the people on these matters, not by occasional diatribes, but by reasoned and constant instruction and, if necessary, by organised and intelligent action. Unfortunately they seem to lack a clear policy and effective leadership, they are prepared to speak but not to act.

The Catholic Church is, indeed, the one remaining bulwark against the disruptive forces which threaten us.

The Irish Free State

It is, therefore, sad to find that the principal paper, read by one of the bishops at the recent annual meeting of the Maynooth Union, was a vulgar tirade against Trinity College, delivered at a time when unity, rather than dissension, should be sought amongst those who stand for the defence of Christianity in Ireland, and who have far more in common than their leaders seem to realise. No objection is taken to Irish Catholics attending Oxford, Cambridge, or the Queen's University, Belfast, all of which are in a similar position to Trinity. The real objection is, of course, that Trinity competes successfully with the National University, an institution which cannot by any stretch of the imagination be called a Catholic university. Trinity has a definite place in our history, and was the *alma mater* of Tone, Emmett, Davis, Redmond, Douglas Hyde (whom it recently honoured) and many other national leaders. Tone was, in fact, the founder of the United Irishmen, and the father of Irish republicanism, which this year displayed its dissensions over his grave. Each year a republican pilgrimage takes place in June to his burial place, at Bodenstown, County Kildare. On this occasion, however, the Fianna Fail party refused to join the I.R.A. celebration, and organised a separate demonstration of its own, as it apparently wanted to avoid appearing as an appendage of the I.R.A.; and Sinn Fein, Miss Mary MacSwiney's devoted Old Guard, objecting to the I.R.A.'s associates, organised another. An official parade by the national army also took place, so that Wolfe Tone had, this year, four different celebrations in his honour. It is difficult to reconcile these body-snatching performances with any real sense of patriotism or humour, nor has the paranoiac hatred they seek to perpetuate any purpose or excuse. Were Tone alive to-day, he might well exclaim: "Save me from my friends!"

The Irish Free State.

August, 1933.

CANADA : PUBLIC ADMINISTRATION

IN previous issues of *THE ROUND TABLE* much has appeared on the general characteristics of politics in Canada, the nature of the parties, the issues over which they fight, and the legal features of the federal constitution. Little attention has, however, been given to the question of public administration in the Dominion, and no attempt has been made to evaluate its quality. This is the theme of the present article.

It needs no elaborate argument to prove that, whatever the triumph of Canada in the art of government, it is not a triumph in the perfecting of an administrative system. In public administration Canada lags notably behind Great Britain. She has inherited the British parliamentary system, but she has not inherited all the excellencies of the British administrative system. In brief, Canadians sorely need to pay increased attention to the combined art and science of public administration. They require to study with thoroughness the methods and machinery of administration in some of the older States of Europe. It is not intended, however, in this article to deliver exhortations in such a general strain. The intention is to pursue the humbler task of describing and interpreting tendencies.

I. THE CIVIL SERVICES

ATTENTION may first be directed to the development and character of the federal civil service. Up to 1908 political patronage in this service was triumphant. It is true that as early as 1868 a Civil Service Act made a qualifying examination requisite for appointment to certain offices, but the provision proved to be little more than a scrap of paper. The Act was systematically violated, the examining board was ineffective, and the majority of appointments were made on party grounds alone. The results of political patronage were what might have been

Canada : Public Administration

expected. Some excellent appointments to the service were doubtless made, but the cumulative result of a régime of political spoils was evil in the extreme. A Royal Commission in 1880 could honestly describe the civil service as "a refuge for people who, by reason of their indolence or lack of intelligence, could not succeed in other employment." Men were placed in positions for which they were woefully unqualified. Departmental staffs were needlessly enlarged, at great expense to the public, in order to accommodate those whom politicians wished to reward. Owing to the prevalent attitude towards public employment it was difficult for civil servants to achieve that status and spirit of independence which are essential for the most reliable and creative work. An attitude of political servility was much too prevalent for the welfare of the public. In brief, there existed the usual crop of evils which follow from political patronage.

A reform was attempted by a statute in 1882, which provided for an examining board and for somewhat more systematic qualifying examinations; but it proved feeble and ineffective because to most appointments the door of political patronage was still wide open. Consequently, when a Royal Commission in 1907-8 investigated the federal service, it found conditions as deplorable as those of 1880. Real reform began with the passage in 1908 of a Civil Service Act which established a Board of two Civil Service Commissioners with secure tenure and substantial salary, endowed with the power of overseeing admission to the service. With certain exceptions all appointments to the inside division at Ottawa were to be made by competitive examinations. Where purely technical qualifications were required, competitive examinations might be dispensed with. These provisions dealt a blow at the dominance of a system whereby men were appointed to public office mainly on the solicitations of Members of Parliament, or on the pressure of patronage committees in the constituencies. But only the civil servants in Ottawa

The Civil Services

were affected, and, since by far the largest number of those on the employment registers of the government were outside the capital, the scope for further reform was great. Indeed the most flagrant examples of the spoils principle were found in the outside service. Not till the concluding period of the great war was a genuine effort made to remedy these. A combination of circumstances then favoured reform, particularly the existence of a National Government, and a sensitive public opinion aroused by some disgraceful disclosures of corruption in connection with war contracts. Hence there was passed the Civil Service Act of 1918, which brought most of the appointments in the outside service within the control of the Commission. This was a far-reaching measure and it imposed a tremendous strain upon the Commission, which had now nominally the task of filling, as occasion required, some 45,000 additional offices. That strain has been felt to the present day, and it would not be untrue to say that no satisfactory machinery has since been devised which would enable the Commission to exercise an effective control over so large a number of appointments.

The Commission attempted to lighten its new burdens by a thorough reclassification of the service, whereby every office with any distinctive features was placed in a category of its own. In this extensive undertaking it obtained the assistance of a body of American personnel experts, who submitted an elaborate report, entitled *The Classification of the Civil Service of Canada*. The new classification evoked violent criticism, and the ponderously serious report of the American experts was commonly referred to as "the joke book." So stormy was the criticism that the classification had to be amended before being carried into effect. It is needless here to examine in detail the pros and cons of the classification adopted. It is sufficient to note that it involved scrapping the former system of general academic examinations as a test of ability, and the substitution of examinations calculated to test the

Canada : Public Administration

special or technical knowledge required for a given job. The doubtful method of promotion by examination was also restored. The system of technical examinations has severe critics, who compare it unfavourably with the different system which prevails in England. But the difference between the two types of examination is probably less vital than is usually thought. If conditions are such as to attract able men, a technical examination on a competitive basis may be as easily defended as an academic type of examination. Whether conditions in Canada are actually such as to attract able men is a different question to which we will return on a later page.

One acute problem emerged soon after the passing of the Act of 1918, and has remained a source of difficulty to the present day. It is the problem as to what appointments should be exempted from the control of the Commission. The commissioners themselves were quick to realise that it was impossible for them to exercise the requisite care in making all the appointments for which they were held responsible by the Civil Service Acts. Written examinations were in many cases impracticable, for instance in those of rural postmasters, where, owing to the small remuneration, there was often no eagerness to apply for the job, still less to stand for an examination. Hence the commissioners recommended that positions with a yearly salary of under \$200 should be exempt. From time to time additional exemptions were added, until at the present day a large number of members of both the inside and the outside services are free from the jurisdiction of the Commission. The net result has been to nullify the efforts of the reformers. Patronage committees remain a sinister fact ; there is still an ugly pressure upon local Members of Parliament from numerous job seekers ; public work often suffers through the appointment of men for political reasons rather than for those of efficiency. Yet the situation is vastly better than it was before the Acts of 1908 and 1918. There is not such unblushing abuse of the public

The Civil Services

service as a means of rewarding political partisans. Parties do not, and cannot, exploit the public purse to the same extravagant extent.

A question of some moment is the extent to which public opinion lies behind this development. One cannot answer the question with any degree of assurance. On the whole, it seems evident from the newspapers that public opinion has grown more consistently antagonistic to the system of political spoils. In western Canada especially this antagonism is vigorously expressed. An excellent illustration occurred a few years ago when a Liberal Postmaster-General dismissed some thirty-two postmasters, in some cases evidently on the advice of patronage committees. The fact that he was a Liberal did not save him from a bitter attack in the *Winnipeg Free Press*, the leading organ of liberalism in the West. Nevertheless the battle over the principle of an independent civil service is far from being completely won, and a more robust public opinion than at present exists will be necessary to achieve a final victory. It is an ominous and disquieting fact to observers who keep abreast of modern progressive movements that in almost every parliamentary session at Ottawa there are motions to abolish appointment by a Civil Service Commission and to get back to what is euphemistically described as "ministerial responsibility," which only too evidently is the responsibility of irresponsible patronage committees. In the session of 1931, Mr. Gagnon, from the province of Quebec, introduced a Bill providing that all appointments to the service outside Ottawa—some 30,000 as compared with 10,000 in the capital—should be removed from the jurisdiction of the Commission. A like motion was introduced in the subsequent session, when one member described the Civil Service Act of 1918 as "a relic of war hysteria under which we laboured some ten or twelve years ago."

These critics claim that the Commission's methods of appointment involve tedious and time-consuming red tape, and in this charge there is doubtless some truth. It is an

Canada : Public Administration

unfortunate fact that in recent years the members of the Commission have been relatively weak men. They have lacked clear and vigorous judgment and that capacity for courageous action which is necessary to cut away ruthlessly the hoary growth of unnecessary regulation. For the attainment of genuine improvement Canadian governments must appoint commissioners with greater talent and bolder qualities. Only men of the highest capacity should be entrusted with the great responsibility of recruiting the public service. But it is only fair to point out that the present Commission is needlessly hampered by the faulty provisions of the Civil Service Act. Some of the so-called red tape was not created by the Commission, but by the parliamentarians who drew up the Civil Service Act, and a recasting of this important measure should accompany the appointment of abler commissioners. On one thing we can be emphatic: that the removal of the majority of the appointments from the control of the Commission would be disastrous. Those who know the past history of the Canadian civil service can harbour no two opinions on this matter. The unsavoury conditions which prevailed when the spoils system was triumphant were set forth with convincing power by the Royal Commission of 1907-8, and there is every reason to believe that similar conditions would return if the appointing power of the Commission were to be greatly restricted or entirely destroyed. The existing system should at all costs be preserved and improved.

In connection with the federal service there is a further important consideration. In prosperous times it is notoriously difficult to recruit able men for government work. In a new country which has hitherto developed rapidly, commerce and industry afford such glittering prizes to the ambitious and the able that public service is too often left to the second-rate and the unambitious. It is not to be implied that all the members of the federal service in Ottawa are of low calibre. On the contrary, there are men

THE CIVIL SERVICES

in the capital who would do honour to the public service of any country. Without implying any invidious discrimination, Mr. R. H. Coats, the Dominion Statistician, and Dr. Oscar Skelton, the Deputy Minister of External Affairs—to mention only two—would not suffer in comparison with the leading public servants of a great European State. But unfortunately there are many more in important offices who cannot be rated equally high. They are intellectually sterile, and owe the office they hold either to the fact that they are not subjected to the rigorous competition of able men, or to political influence, and to their readiness secretly to utter the party shibboleth. The only remedy for this condition is to judge men solely by merit and not by their political affiliations. Equally essential are adequate salaries. The higher posts, like those of the deputy-ministers, are already fairly well paid when due recognition has been given to the perquisites of the office, but there are not enough well-paid minor positions to attract able young men. Consequently, the deputy-ministers, who are usually taken in mature life from outside activities, are often forced to depend upon mediocre subordinates, men who adequately satisfy the prosaic requirements of clerks, but lack superior executive and thinking capacity. A patent weakness in the federal service is its failure to provide a sufficient number of attractive stepping-stones for ambitious and able young men. Yet it is only by attracting such men that the leaven of ability can be increased and those conditions eliminated from the federal service which led one wag to describe as its appropriate motto the words, "All hope abandon ye who enter here."

In the provinces the civil services reveal the defects, in most cases accentuated, of the federal service. Political patronage, with its damaging influence on the quality of public administration, has been the rule. In Ontario an attempt has been made with partial success to minimise the ill effects by the appointment of a Civil Service Commissioner to supervise all appointments, investigate con-

Canada : Public Administration

ditions in the various departments, and make recommendations for bettering business methods. Despite progress in the past fifty years, there is still ample room for improving the methods of recruiting, promoting, and preserving the independence of provincial civil servants. What seems to be particularly lacking among the members of both the federal and provincial services is a real professional spirit, which in itself would do much to guarantee their independence and enhance their influence. Significantly there is no branch in Canada of the Institute of Public Administration of Great Britain, or anything in the nature of that association, although branches of the Institute exist in New Zealand, Australia and some of the outlying parts of the Empire. The fact that there is no organization to bring together public officials on the meeting-ground of a common interest in public administration means much ; it means especially that there is little scientific interest in the subject among most of those who are actively engaged in such administration, and that in itself is not a healthy situation.

A phase of public administration in which political patronage has been particularly costly is the granting of contracts for public work. This form of patronage has been, perhaps, the greatest of the unnecessary costs of Canadian government. The party in office is the largest distributor of contracts within the State, and in Canada it has commonly not refrained from using its power freely to maintain or to extend its hold upon the constituencies, by carefully spending money in those areas in which its majority is threatened. Thus by a process which is not far removed from the ethics of bribery it wins support. This, needless to say, is not a political blemish peculiar to Canada. It is prevalent in the democracies of practically all new countries, and in Canada it has not hitherto revealed itself to an exceptionally vicious degree. But it is there, and Canadians should correct it. That it survives is partly owing to the indifferent and uncritical attitude of public opinion ; the readiness of the public to condone the little

Local Administration

vices of politicians as an inevitable part of the process of government. Its correction must await, like so much else in Canadian democracy, the growth of a more alert popular vigilance and a more vigorous public spirit.

II. LOCAL ADMINISTRATION

A PRONOUNCED weakness in administration exposed by the events of the present depression is found in the municipalities. For the benefit of readers outside Canada it may be pointed out that municipal institutions in this country have wide and important powers. The United Empire Loyalists, in laying the foundations of Ontario, brought with them from the north American colonies stubborn convictions about the value of local government, and built up a system of local rule which later was adopted as a model elsewhere in Canada. The British North America Act gave to the provincial legislatures the authority to establish municipal institutions and to endow them with necessary powers. In all the provinces these powers are generous. For example, until the present depression unemployment and poor relief were left almost wholly to local governing bodies, involving a financial burden at times of no little weight, particularly in the case of the cities. With mounting figures of unemployment, from 1930 onwards, this burden became unbearable. The municipalities had neither the financial means nor the administrative organization to deal effectively with a problem which had become national in its complexity and magnitude. The provincial and federal authorities were, therefore, forced to aid the municipalities in the matter of the cost of unemployment relief.

This financial aid did not, however, meet all the paralyzing difficulties of the situation. The municipalities were struggling to cope with a problem which administratively exceeded their capacity. In the majority of cases they had not the necessary organization or trained officials. It is true that they were quick in improvising them, but their

Canada : Public Administration

improvisations were defective. Satisfactory treatment of unemployment requires the compilation of uniform and useful statistics, in order to test the effects of experimental policies ; the power to transfer workers from one area to another according to employment needs and the planning of public construction ; the exercise of care in the distribution of relief money and in expenditure on useful public works. These and other necessary conditions have been too frequently absent in recent years, because municipal councils have been ignorant of the complexities of the problem and have had inadequate expert advice.

Such advice might well have been supplied by both federal and provincial authorities, but these authorities were just as sadly unprepared as were the municipal bodies. The Federal Government seemed on the whole to think that its task was done when it voted money for the provinces and the municipalities to spend on relief. On the other hand, the provincial authorities have in most cases granted subsidies to the municipalities without much attempt to guide them in the administration of these funds. In Ontario the government, in its subsidies to the municipalities, laid down few conditions. The subsidies were usually hurriedly made, without anything like a thorough investigation of the needs of each municipality. No adequate service of inspection was provided to check the efficiency and honesty of municipal methods in administering the funds. Hence, as might be expected, some cases of scandalous expenditure have occurred. A notorious case was revealed at the town of Sturgeon Falls, where relief funds were freely plundered by those who had no rightful claim to benefit.

Nor does this weakness in municipal administration show itself only in handling the problem of unemployment. It also appears in attempts to implement measures of social legislation. An excellent instance was the administration of old age pensions in Ontario. In 1927 the Federal Parliament passed a law providing for the grant of assistance to any province undertaking to pay old age pensions on cer-

Local Administration

tain prescribed conditions. The form of this support was determined by the fact that there is a doubt whether the Federal Government itself has power under the British North America Act to establish a purely federal system of old age pensions. The Federal Government, however, admittedly has the power to grant money to the provinces for any purpose. The statute of 1927, therefore, seemed to be the only feasible way of furthering the particular policy in question, and it was a particularly effective way, since few provinces wished to lose the opportunity of extracting additional money from the Federal Treasury.

Ontario passed the necessary legislation, providing for local pension authorities in every city, town, county and district, with power to adjudicate upon claims for pensions. But, as in the case of many unemployment relief committees, the mechanism of administration was lamentably defective, and various abuses soon crept in. Not the least of these was the use of their power by the boards on some occasions for party or political ends. Shortly after the system came into operation, Mr. W. G. Martin, the Minister of Public Welfare, admitted that considerable abuses had been unearthed by five inspectors engaged in investigating cases of pensions granted by the local boards, and that, although the total number of pensioners was only 39,000, the government would recover more than \$200,000 illegitimately distributed. Owing to the prevalence of such abuses a wise change was made in 1932, whereby in future all applications for pensions had to be forwarded for investigation to a Provincial Old Age Pensions Commission.

* * *

In these paragraphs no reference has been made to what might be considered the striking successes of public administration; such, for example, as the excellent work performed by the officials of Ontario's provincially owned hydro-electric system, or the equally excellent work of federal officials in Ottawa in building up within the past ten years a first-rate statistical service. Other instances of commendable work done by public servants might also be

Canada : Public Administration

cited. But the intention of this article is to describe the more general conditions, which are not as wholesome as they might be. The crux of the situation is this : the tendency in Canada has been to devolve on to the municipal authorities responsibility for the administration of sorely needed social policies, and in recent years particularly, in view of the increase in the burden which is placed upon the State in connection with the amelioration of social conditions, it has been proved that these authorities cannot discharge this responsibility satisfactorily because they are inadequately organised and supervised. The gravity of the matter is not sufficiently recognised. As already mentioned, the Canadian people have hitherto paid less attention to public administration than the subject deserves. One thing which undoubtedly aggravates the condition is the existing distribution of power between federal and provincial governments, often referred to in previous articles of *THE ROUND TABLE*.^{*} The Federal Government does not feel free under the provisions of the British North America Act to carry into effect social legislation. If it were free, it would undoubtedly create administrative agencies which could be efficiently supervised. As things are at present, it is left to the provinces to pass the bulk of the social and labour legislation, and they in their turn shoulder on to the municipal bodies much of the responsibility for administration, with results which are too often unfortunate. The simplest and most effective method of reform would no doubt be to enlarge the federal legislative power; but this is difficult to achieve because of the overgrown particularism of the provinces. Democracy in Canada is not without its virtues, but "an alert popular vigilance" in the matter of public administration is not one of them. There is no more pressing need than its creation.

Canada.

July, 1933.

^{*} See *THE ROUND TABLE*, No. 85, December 1931, p. 162; No. 88, September 1932, p. 862.

AUSTRALIA

I. AUSTRALIA'S RESPONSE TO THE OTTAWA AGREEMENT

THE first business which the Lyons Government brought before the Commonwealth Parliament when it met in March was a new tariff. In moving the tariff resolution, the Minister for Customs (Lt.-Col. T. W. White), whose predecessor, Sir Henry Gullett, had been compelled by ill-health to resign his portfolio, summarised the object of the Government's policy as being to secure :

(a) a selective tariff, where efficient industry is an essential qualification for tariff shelter ; (b) a competitive as distinguished from a prohibitive tariff ; (c) the measure of protection to be guided by the recommendation of the skilled Tariff Board, and not by arbitrary ministerial action.

"This," he went on to say, "accords also with the Ottawa Agreement, whereby the first responsibility of each government is recognised to be to care for the industries, whether primary or secondary, upon which its population depends, while at the same time assisting the commercial solidarity of the Empire." "The aim," he stated, "is to attain a fair balance between primary and secondary industries." The Minister referred to Articles 10 and 11 of the Ottawa Agreement, which declare that the Australian tariff is to be based on, and reviewed in the light of, "the principle that protective duties shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special consideration may be given to the case of industries not fully established." It was not intended at Ottawa, the Minister added, that reasonable competition should mean destructive competition. If Australian costs were higher in economical and efficient

Australia

production, allowance must be made in ascertaining the protection necessary.

In the performance of its engagement to review existing protective duties, the Commonwealth Government referred a large number of important items to the Tariff Board for inquiry and report. The Board had been occupied upon a review of the tariff for some time before the Ottawa Agreement, and compliance with the principles of the Agreement has not rendered it necessary for it to alter the general lines that it had been following. In so far as certain industries are concerned, however, it is probable that, although the Board's reports may not have brought out the point, difficulty will be experienced in permitting reasonable competition on the basis of economical and efficient production. Economical and efficient production in an Australian industry may only become possible when that industry commands practically the whole of the market. If imports which will supply part of the market are permitted, then even if the price does not fall Australian production may be so reduced in scale that sale at the former price may become impossible and the industry languish. Despite the benefits which primary producers may expect to reap from the Agreement, it is most improbable that Australian opinion would be willing to pay the price if it meant the loss of such industries.

The tariff submitted in March embodied such reductions of duty as had been recommended by the Board in reports already in the hands of the Government, including the reductions that had been proposed in tariff resolutions submitted during the 1932 session, many of which were based on reports made before the Ottawa Agreement. The reductions in duties on British goods are considerable, and many of them should have the result of stimulating British trade and lowering Australian costs, both in primary and in secondary industry, without seriously damaging sound and well-established Australian manufactures. The following figures, from the Board's various reports, which have

Australia's Response to Ottawa Agreement

been adopted in the new tariff, can probably be treated as representative instances :—*

Goods	British imports before Scullin tariff £	Former duties (British preferential)	Reduced duties 1932-33
Static trans- formers	130,000	60 per cent., or specific rates up to equiva- lent of 280 per cent. <i>ad valorem</i>	45 per cent. ; larger sizes free.
Crude oil engines	53,000	55 per cent.	45 per cent. ; free above 100 h.p.
Dynamo-electric machines	445,000	40 per cent., 45 per cent., and specific rates up to equiva- lent of 154 per cent.	45 per cent. ; larger sizes free.
Vessels of 500 to 1,000 tons	—	50 per cent.	Free.
Electrical fittings	730,000	65 per cent. and up- wards, and specific rates up to equiva- lent of 700 per cent.	27½ to 45 per cent., and many free.
Dry batteries	—	Specific rates up to equivalent of 300 per cent.	35 per cent.
Hoods for hats	175,000	20s. a dozen	.. 10s. a dozen.

On these items the reduction in the duty is considerable. In other cases it appears to be inadequate for the purpose of the Ottawa Agreement. For instance, although the prohibitive duty imposed by the Scullin Government on socks and stockings has been halved, it still seems to provide an excessive rate of protection (about 100 per cent. against British and 200 per cent. against foreign products). It is the same with many other articles of apparel. The Tariff Board has advised the Government that although these

* The figures for imports are the sterling values of British imports in an average year before the increases of duties enacted under the Scullin Government came into force, and the duties are those applied to British imports; foreign imports are subject to duties at substantially higher rates than British imports.

Australia

items have been recently reported upon, they should be reconsidered in the light of the Agreement. Other important items have been listed for review; they include bolts and nuts and gears for motor-cars.

In the case of machinery it may be said that very substantial benefits have been given to British manufacturers. Besides the items already mentioned and others of less importance on which the duty has also been reduced, there are 367 items which were formerly dutiable at the rate of 45 per cent. in the case of British goods and 65 per cent. in the case of foreign goods. Actually these items were admitted free at the discretion of the Minister, under a by-law, but the duty might at any time have been imposed. They are now admitted free of duty under the preferential tariff, and are subject to 15 per cent. under the general tariff; nor can any new duty be imposed without inquiry and report by the Board. But in the case of textiles, and iron and steel, the effects of Ottawa are less beneficial to British trade—indeed no one familiar with conditions in Australia would look for any great benefit to British trade in these particular products. The Australian woollen industry, both spinning and weaving, is well established and efficient, and there is strong internal competition; hence it cannot be expected that the tariff will be lowered so as to permit of oversea competition in the important lines. Cotton spinners and weavers, who have heavy protection in respect of limited classes of goods, are asking for an extension of their privileges; they are, moreover, supported by cotton growers who demand a protected home market. The British preference on cotton piece goods is 20 per cent. These goods are not made in Australia, but they are the subject of competition from the Far East, and those who would correct this state of things by tariffs must bear in mind that China and Japan are buying increasing quantities of our own exports, particularly wool and wheat. The gravest case is that of iron and steel, an industry natural to Australia and equipped with modern

Australia's Response to Ottawa Agreement

plant, which already supplies the Australian market with pig iron, rails, building sections and other important products. On grounds of defence, moreover, it has unanswerable claims to continued existence. Both during and after the Ottawa Conference, the iron and steel companies announced that preparations were being made for the extension of their plant so as to permit of the manufacture of iron and steel plate, pipes and tubes (for water and gas), hoop iron of all sizes and tinned plate. These are almost all the important items now imported from abroad. Each of these developments has been encouraged by the Commonwealth Government, for, although the items in question have hitherto been free, deferred duties have been declared from time to time—some as long ago as 1920—to come into force whenever the Minister is satisfied that production is about to commence or is actually established in Australia. In view of this encouragement, and of the fact that, ever since the inception of the industry, they have planned these very developments, which, moreover, are said to be necessary for the economic working of the existing iron and steel plants, the companies claim that they are entitled to protection. If any protection is given, however, it is not likely to permit of competition from Great Britain. The most important remaining trade with Great Britain in the iron and steel category (except machinery) is thus threatened.

The Tariff Board has been fully engaged in the inquiries which have to be made before the Ottawa Agreement can be honoured, but progress has seemed slow both to would-be importers and to those interests in Australia which want to see an immediate and substantial reduction of duties. It is understood that representatives of British trade feel anxiety as to whether Australia intends substantially to comply with the Agreement. What has been said above should satisfy them that the Government has acted in good faith, and that reductions may be expected in many more duties. The views of those in Australia

Australia

who wish to see duties lowered found expression in a resolution moved by Mr. Paterson, deputy-leader of the Country party, that the Government should at once give an increased preference to British goods by reducing all duties raised by the Scullin Government to the level of the 1921-1930 tariff, without awaiting reports from the Board. This view did not, however, give adequate weight either to the difficulty of reducing duties, or to the danger that too great haste and insufficient consideration might alienate public opinion and jeopardise all hope of reasonable tariff reform. The House of Representatives rejected Mr. Paterson's resolution; the Government's proposals were adopted by it in May almost without alteration and are likely to pass the Senate by July.

It is not to be supposed, however, that Australian opinion is wholly satisfied with what is being done. On the one hand, there are the disappointed primary producers, who looked for a double benefit—better markets in Great Britain, and cheaper goods in Australia; in so far as the former is concerned they have been disappointed, owing to the restriction of the quantity of meat imported into the United Kingdom, the proposed restriction of imports of butter, and the fall in the prices of both, while they find little change in the price of the things that they most need. On the other hand there are the manufacturers who fear for the future of the more highly protected industries. Between the two stands the general public, which (bearing in mind the doubts about our future economic structure that are suggested by the failing markets for our food exports in Europe, and the growing markets for our wool and wheat in the Far East), is unlikely to support any tariff reductions which would threaten major industries, and is also uncertain about the wisdom of measures which might antagonise our best foreign customers.

Figures are not available for an adequate statistical picture of the effect of the new tariff. Duties on about 130 items and sub-items, if imported from Great Britain,

Australia's Response to Ottawa Agreement

have been reduced (this total includes the reductions made by tariff resolutions in 1932, some of them before the Ottawa Conference); on about 440 items, the duties on British goods remain unaltered, but on foreign goods they are raised, most of them by 5 to 10 per cent. It is not to be understood, however, that the duties on all British goods which now bear lower duties would give "full opportunity of reasonable competition" with established Australian industries even if the difficulty which arises from exchange and primage, and is discussed below, did not exist; how many give that opportunity it is impossible to say.

One point of the utmost importance has not yet been dealt with. In making recommendations as to the amount of duty necessary to protect an Australian industry, the Board, whether it is applying the Ottawa principle or not, has so far ignored the effects of exchange and primage. Primage is a temporary revenue duty of 10 per cent. of the dutiable value, payable on nearly all imports. By "exchange" is meant the depreciation of the Australian pound which makes its exchange value only four-fifths of the pound sterling. For over two years, at least £125 Australian have been required to make a sterling payment of £100, and there is no present prospect of any appreciation; but, as with primage, the exchange disparity was at first assumed to be a merely temporary phenomenon.

The first effect of this depreciation and of the primage is to raise the landed cost of imports in Australian pounds in the ratio of 100 to 135; that is, the Australian manufacturer could charge up to £135 Australian when competing with English goods costing £100 sterling to land, or, in other words, exchange and primage, taken alone, add 35 to the percentage rate of duty recommended for protection. But Australian costs of manufacture are also increased, because primage raises the price of imported raw materials and machinery, while exchange depreciation raises the price both of imports and of exportable goods consumed in Australia. The cost of imported raw material

Australia

is therefore raised by 35 per cent., and of exportable produce (such as wool, hides, metals) by 25 per cent. The prices of imported and exportable foods (such as tea, butter, flour) are raised in the same proportions, thus increasing the retail price index, with a corresponding effect on the wages paid by those industries (including most manufactures in which wages depend on that index). Impressive statements of the theory of purchasing power parity could be quoted which would justify the assumption that the final effect would be to raise costs nearly as much as prices—nearly enough at any rate for temporary purposes. This conclusion, it may be noted, is much more plausible for Australia than for Great Britain, because wages in Australia are peculiarly elastic and responsive to price changes, while British wages have shown themselves remarkably rigid even in the débâcle of prices of the last few years.

Further, by a technicality of the customs law, *ad valorem* percentages are calculated not on Australian values, but on sterling values. A duty of 40 per cent. on goods with a landed cost of £100 sterling or £125 Australian is not £40 sterling or £50 Australian, but £40 Australian. The *ad valorem* rate, nominally 40 per cent., is in effect reduced to 32 per cent.

On the whole, then, there was a fair case for assuming that neither exchange premium nor primage—particularly if they were only temporary—gave such increased protection to Australian manufacturers as to warrant a revision of rates of duty that had been fixed on the assumption that neither had any effect on competitive costs. Their persistence, however, has called for a closer consideration of the problem.

Economic opinion inclines to the view that under Australian conditions, in spite of the automatic adjustment of wages to prices, the general price level cannot be expected to rise much on account of exchange depreciation. General costs, therefore, will not be materially affected by exchange and primage. The special costs of raw material

Australia's Response to Ottawa Agreement

may, however, be greatly raised. When raw material bulks high in total costs, and that raw material is imported or exportable, an industry may require nearly all the old duty to give it the same protection as it had when exchange was at par. On the other hand, an industry using no imported or exportable raw material might be able to get along with protection reduced from, say, 40 per cent. to 10 per cent. These are the extreme cases, and industries of the former kind cannot be of great importance. On top of these and other complications comes the consideration that, in spite of exchange and primage, the wages index in Australia has fallen 20 per cent. in the last three years, while British wages have fallen only 4 per cent. The relative protection required must therefore be changing rapidly. The Tariff Board held a public enquiry into the whole tangled question and made a report, but its recommendations have not yet been made public, although in both Houses of Parliament it was pointed out that the tariff could not fairly be considered without knowledge of what was to be done about exchange and primage.

Finally, those who expect that the implementing of the Ottawa Agreement will largely increase British trade with Australia may be disappointed if they overlook the limit set to Australia's imports by her capacity to pay for them. Oversea interest is a heavy fixed charge. The aggregate value of exports is determined more by the season than by the price received for them. There is, indeed, for a given season a fixed value of imports that Australia can buy. Capital investment from abroad would increase it, but that is not at present likely to take place to any great extent. Imports could be drawn more from Great Britain and less from other countries, though again not to any great extent. When what is possible in that way has been done, there will be a more or less fixed fund from which alone British exporters can be paid, until Australian export prices rise or the burden of external interest is reduced. Consequently, if reductions in the duties in one class of goods tend to

Australia

increase British exports of those goods to Australia, there must be a corresponding decrease in exports of other British goods to Australia.

Viewed from any angle, it is clear that to implement Ottawa for the benefit of Australian primary producers and British manufacturers, without inflicting more damage on important Australian industries than Australian opinion will think justifiable, is likely to be very difficult, if not impossible.

II. APPEALS TO THE PEOPLE

DURING the quarter there have been appeals to the people in three States—on April 8 general elections in South Australia and Western Australia, and a referendum in Western Australia on “secession,” and on May 13 a referendum in New South Wales on the reform of the Legislative Council. Each of the general elections rejected the existing Government; in South Australia a Liberal-Country Ministry under Mr. R. L. Butler supersedes a Labour Ministry, while in Western Australia a National-Country Ministry gives place to a Labour Ministry with Mr. Philip Collier as Premier. The following is the state of parties as it appears from the returns, in comparison with their state in the outgoing Parliament.

<i>South Australia.</i>					New	Old
Liberal Country	..	..	..	..	28	15
Australian Labour	..	..	..	..	6	9
Parliamentary Labour	..	..	..	..	4	20
Lang Labour	..	..	..	..	3	1
with a few “Independent” and “Single Tax” members.						
<i>Western Australia.</i>					New	Old
Nationalists	..	..	..	..	8	15
Country	..	..	..	..	11	12
Labour	..	..	..	..	30	23
Independent	..	..	..	..	1	—

In both cases the ministerial defeat was a rout, and in certain of its aspects expresses the dissatisfaction which a

Appeals to the People

Government is bound to excite in many questions and for very different reasons in conducting public affairs during the present critical period. In both cases, the Premier whose name is associated with the life and works of the outgoing Parliament disappears from parliamentary life. Sir James Mitchell, Premier of Western Australia, lost his seat. He was one of those who ill accommodated himself to these lean days when Governments have to do without oversea loans, and must contract expenditure. Mr. Hill, late Premier of South Australia, found even before the election that his zeal in supporting a plan which involved drastic all-round economies had made his position as Labour leader impossible, and his retirement to the non-political office of Agent-General in London, if it did not unite the Labour groups, prepared the way for a contest in which all of them were opposed not merely to the party led by Mr. R. L. Butler but also to its policy. In neither State is the divergence between Labour and its opponents quite so great as in the eastern States. This is partly a matter of persons, partly a matter of economic and social differences which have prevented labour class consciousness from assuming the form which it has in more highly industrialised communities. In the case of neither State has a "turn-over" the same significance for itself or for Australia as a whole as it has in the case of the eastern States.

More interesting than the general election itself was the referendum which attended it in Western Australia on the subject of secession from the Commonwealth. The elector was called on to answer two questions :

1. Whether he desired the secession of Western Australia from the Commonwealth.
2. Whether he desired a constitutional convention to consider the reform of the Commonwealth Constitution.

A majority of the electors answered "aye" to the first question ; "no" to the second. The answers are the

Australia

more interesting in that they are independent of the party issues of the general election ; for Labour in Western Australia has adopted the general Labour aim of unification, while the secessionist campaign had encouragement from Sir James Mitchell. The movement itself is the expression of many discontents, most of them not peculiar to Western Australia. The production costs which a high tariff imposes are not compensated in Western Australia by an industrialisation which centres in Sydney and Melbourne, and grievance takes possession both of those who desire cheaper goods from abroad and those who would see Western Australia become more "self-contained" with a tariff of her own. The Navigation Act, the especial grievance of Tasmania, is also a cause of Western Australian discontent. There are complaints that the incidence of taxation bears the more hardly upon States in proportion to their developmental tasks, and as these are greater in States with vast territory and a small population, Western Australia, pre-eminent in these conditions, accounts herself the chief sufferer.

The complaints are not new, but hard times have brought them to a head. They compel the realisation that Australia is a continent, that policies which may be beneficial to the continent as a whole may be ill-suited to communities which, from their geographical situation and their economic and social condition, have a strongly developed self-consciousness which does not merge in an all-Australia consciousness. The rigid party lines and discipline, on which Commonwealth elections are fought and parliamentary action is determined, have ignored these differences and hindered the effective recognition of these conditions in federal policy, and have diverted the discontented States to seek compensation in financial assistance from the Commonwealth in somewhat the same way as primary producers have sought compensation in various forms of Government aid for the handicaps imposed upon them by the tariff and social legislation. It is, too, one

Appeals to the People

of the disadvantages of a federal system that it facilitates some dispersion of responsibility for the consequences of policy, and particularly of financial policy. Not a little of the financial and economic tangle in Western Australia is due to expenditure imprudently undertaken and carried out by the State itself in the name of development.

On May 13 a referendum was held in New South Wales on the question of whether the Upper House should be reformed. On a poll of something over 1,400,000 there was a majority of just over 40,000 in favour of the reform proposals, which will accordingly become law. No change in the constitutional position of the New South Wales Upper House (the Legislative Council) was possible without a referendum, since the constitution specifically enjoins that the Upper House shall not be abolished nor shall its powers be altered, until the proposed change has been approved at a referendum. This provision was inserted in the constitution in 1929; its validity was upheld by the Privy Council in 1932.

There is thus an essential distinction between the referendum held in New South Wales and that in Western Australia, a distinction which for fear of misunderstanding must be emphasised. The questions submitted to the people in Western Australia, and their answers, are wholly void of legal effect: the referendum was an extra-constitutional act, and its result was merely the collection of opinion. It is beyond question that no State by its own act can secede from the Commonwealth, and there are doubts whether even the machinery for the alteration of the constitution of the Commonwealth—the assent of the Commonwealth Parliament and the approval of a majority of voters in a majority of States—could effect the severance of a State from the “indissoluble Commonwealth.” On the other hand, the referendum in New South Wales is the legal and constitutional means of altering the form and powers of the Legislative Council, essentially a State matter.

Australia

The New South Wales Upper House has previously consisted of members appointed for life by the Governor on the nomination of the Premier. The number that could be appointed was unlimited, and the question of how far a Governor was bound to accede to the request of a Premier for additional nominations had never been satisfactorily determined. In consequence of this the House has been subjected to successive "swampings"; no fewer than 77 new members have been appointed within the last eight years. The total membership at the time of the referendum was 121.

The Government's proposals were largely based upon the desirability of reducing the numbers of this unwieldy body, but were particularly directed to the avoidance of the possibility of a Government's obtaining office, swamping the Upper House, and putting into execution a policy for which it had no mandate. The experience of Mr. Lang's tragic régime of 1930-32 had shown that the old system was no sufficient safeguard against this.

The new Council will be elected by the members of both Houses of Parliament voting as one body on a system of proportional representation. It will be limited to sixty members, each one—except in the case of those elected at the first elections—holding office for twelve years. Every three years one-quarter of the members will retire, and elections will be held to fill their places. In order to start the system of rotationary retirement the members of the first House will be elected for varying terms.

It will be seen that the system of indirect election takes its origin in large part from the recommendations of the Bryce Report of 1912 on the reform of the British Parliament. The really distinctive feature of the proposals is the provision which has been made for solving deadlocks. If the Upper House refuses to pass a Bill upon which the Lower House insists, the Lower House, after a short interval and after the breakdown of negotiations with the Upper House, is empowered to direct that the measure

Appeals to the People

in question shall go to a referendum. If it is then passed, it can become law in spite of the opposition of the Upper House. With regard to the supply Bills for the ordinary annual services of Government, the Upper House has no control, except the power to delay them for one month. Other money Bills come under the ordinary deadlock provisions. This important departure from the usual convention that all money Bills should be under the complete control of the Lower House has been prompted by the recollection of Mr. Lang's 1932 Mortgage Tax Bill (which, however, never became law). It was felt that a Government could violate its mandate just as effectively with a taxing Bill as with any other Bill, and that some check was necessary.

In the circumstances the passage of the Reform Bill, in the face of that hostility to constitutional change which has always marked the Australian electorate, must be rated as a notable achievement, especially since the policy of necessary economy adopted by the Stevens Government was naturally unpopular in certain quarters.

The new House cannot be elected until certain legal formalities have been complied with, and it is unlikely to be inaugurated before 1934. The present constitution of the chambers—the overwhelming majority of anti-Labour members in the Assembly, and of anti-Lang (though not anti-Labour) members in the Council—appears to indicate that at the outset, and for many years, the Council will have the “conservative” character generally attributed to second chambers. On the other hand, the Assembly may in any case appeal from its veto to the electorate

Australia

III. PUBLIC FINANCE AND THE LOAN COUNCIL

THE Premiers' Conference and the Loan Council (which can be transmuted in a moment by a change of Chairman) met early in June to plan finance for the year 1933-34. The Commonwealth Bank Board sat at the same time to facilitate negotiations on short and long term borrowing.

For revenue and expenditure in 1932-33, approximate figures were tabled which showed that the Commonwealth Government had bettered its undertaking to balance its budget in that year and was expecting a surplus of more than £3 million. This included a carry-over of the unexpected surplus of £1.3 million earned in the preceding year, but, on the other hand, the Commonwealth found out of revenue £2.2 million for the relief of wheat growers, which had not been budgeted for, and conceded some relief in land tax, primage on imports and sales tax. The States, which had the harder row to hoe, kept within the limit they had set themselves, and showed a combined deficit of £8.76 million, against a planned £9 million. Queensland, Western Australia and Tasmania exceeded their quotas, but the other three States more than made up the excess.

The performance for the year was, therefore, satisfactory. Progress towards balanced budgets does not continue automatically on a given scheme of economy in expenditure and additional taxation. Some expenditure, such as old age pensions, naturally grows, and the faster on account of the changing age distribution of the Australian population. Revenue, on the other hand, trends downward. Taxes on goods and services, it is true, have passed the low point and are increasing, but that chiefly benefits the Commonwealth. On the other hand, with the gradual reduction of capital values to realistic levels, all direct taxation continues to fall away, and the States are chiefly dependent on direct

Public Finance and the Loan Council

taxation. So it comes that the States cannot even keep deficits down to the 1932-33 figure without new efforts. The Commonwealth is in a much stronger position in any case, and particularly so with the suspension of interest and sinking fund payments on British war debt, which together make over £6 million in Australian currency. The Commonwealth has at least a £3 million surplus in the current year and could probably increase this figure in 1933-34 and use it directly to offset State deficits. The Government's view, however, is that it is more helpful to use the surplus to lighten the burden of heavy taxation, both direct and indirect. It cannot be said that the State Governments concur in this opinion.

With the prospect of a further decline in the yields of direct taxation, the States estimated an increase of deficits for 1933-34 from £8.76 million to nearly £10 million. These figures roused the stern deflationists from pained acquiescence to impassioned protest. It was a radical departure from the "Three Years' Plan," to balance budgets by June, 1934—a lamentable failure to live up to the solemn undertakings made at the Premiers' Conference of 1931. It was in vain that the Loan Council itself, its Chairman, Sir Walter Massy Greene, and the State Premiers, recalled the facts of 1931. The stern deflationists—including some important daily papers, backed by an elusive "city opinion" and "banking opinion"—continued their lamentations. The same body of opinion—or feeling—was, as might be expected, equally insistent on a reduction in taxation.

The "Three Years' Plan" was, in fact, a myth, having its roots in pious resolutions to balance budgets, before any definite plan for doing so was considered. There is no mention of three years in the resolutions of the Premiers' Conference, which adopted the Premiers' Plan in June, 1931. The Committee of under-treasurers and economists, on whose report the plan was based, restricted its aim to a progressive reduction of deficits. It counted on some increase in export prices within three years, but even with

Australia

that improvement it recorded its conclusion that "it will not be possible to balance budgets during the next three years." Actually, export prices have fallen 12 per cent. since that time, so that *any* progressive reduction in deficits more than fulfils the obligations undertaken by the Governments in June, 1931.

The myth has, however, served one useful purpose. The Plan has imposed difficult and unpopular tasks on all Governments, and all available pressure has been needed to keep some of them up to the mark. The Commonwealth Bank Board, which finances the deficits with treasury bills, has naturally felt a special responsibility in keeping deficits down, and has used the tacit assumption of a "Three Years' Plan" with increasing insistence as a stick to beat reluctant treasurers. The Commonwealth Government has been disposed to second the Bank. Too insistent an emphasis on the immediate necessity of balanced budgets would, however, impose on the Commonwealth Government the logical necessity of using its surplus to reduce State deficits, a policy from which it is very averse. It was probably these considerations which led to a fairly united front of both Commonwealth and State Governments in their recent negotiations with the Bank, and to an agreement with the Bank, which takes fairly into account the realities of the political economic and financial situation.

The first estimate of State Government deficits for 1933-34 was about £10 million. When under-treasurers in committee and the Loan Council itself had done their best with them, the total was reduced to £9 million, and the request made to the Bank to issue treasury bills to that amount. The Bank suggested a limit of £7 million. After further deliberations in the Loan Council, the Commonwealth offered additional grants to the weaker States to the amount of £300,000 and further economies of £200,000 were undertaken by four States. The result was to reduce State deficits to £8.5 million, and at that figure an agreement was reached with the Commonwealth Bank. The

Public Finance and the Loan Council

planned deficits for 1933-34 compare with the estimated deficits for 1932-33 as follows:—

	1932-33 (Estimated)	1933-34 (Planned)
	£	£
New South Wales	4,210,000	3,950,000
Victoria	800,000	800,000
Queensland	1,580,000	1,850,000
South Australia	1,100,000	1,100,000
Western Australia	850,000	750,000
Tasmania	200,000	50,000
	<hr/> 8,760,000	<hr/> 8,500,000

The Commonwealth, which would have a large surplus on the present prospects of revenue, is planning to reduce it to a moderate figure by remission of taxation.

The official statement of the Loan Council took the view that £8·5 million was a reasonably satisfactory figure for total deficits. This figure took no account of the probability of overseas conversions which would reduce it. It did not anticipate any rise in overseas prices, though prices were actually rising at the time. Moreover, some of the State treasurers were very hopeful that they could better their estimates. Further, the expenditure of Australian Governments included sinking fund contributions of over £7 million. When all these were taken into account, there was a good prospect that budgets would practically balance on the actual expenditure of the year. The possibility of suspending sinking funds was raised, but the Governments were resolute on the necessity of not interfering with sinking fund commitments, even at the cost of further local borrowing.

The general policy in respect of loans for public works was settled at the February meeting of the Loan Council. It was then agreed with the Commonwealth Bank Board that in future money for public works should be raised on the open market for long term loans and not, as heretofore, from the banks by treasury bills. It was also agreed that

Australia

if the market was favourable for further borrowing at reasonable rates, some funding of treasury bills should be undertaken. The agreement on the latter point is not very explicit, and there is strong opposition to the early funding of treasury bills, on the ground that it will restrict credit and postpone the movement which is now going on steadily towards lower interest rates. It is possible that in the end a compromise will be reached by which treasury bills will only be funded to the extent that they are being increased by financing of deficits, so that the total of treasury bills outstanding will remain constant until definite progress towards prosperity has been made.

The public works programme for 1933-34 was fixed by the Loan Council in June at £17,346,000. Of this, £8·5 million was raised recently by public loan at $3\frac{3}{4}$ per cent. A further loan for perhaps £7 million, with amounts available from other sources, would provide the balance, and this may be expected later in the year. But no agreement with the Bank has been made, and, at the suggestion of the Bank, the question was postponed until some estimate could be made of the effects of the World Economic Conference. The matter will, therefore, come up again for consideration later in the year, along with the question of funding treasury bills.

There was one matter outside the sphere of finance discussed by the Premiers. The political reaction to the Western Australia referendum was various proposals for a national convention to consider generally the revision of the Commonwealth Constitution. The discussions were indeterminate and ended in an understanding that there may be such a convention next year during a long parliamentary recess. The Commonwealth Government has independently appointed a commission to consider States grants.

Australia.

July 27, 1933.

SOUTH AFRICA

I. THE COALITION

SOUTH AFRICA has had during the last quarter almost a glut of political novelties. It has observed the political enemies of a generation fraternising, and co-operating with all the apparent heartiness of long-standing association. It has passed through a general election in which the racial note has been all but unheard. It has seen a Parliament assemble in which the Opposition consists of only six members—in three groups of two. It is not strange that it should from time to time have wondered whether the change that has come over the political scene is not perhaps too good to be true—whether it can really be expected to last.

The Hertzog-Smuts Government was sworn in on March 31, Parliament was dissolved a week later, and the elections took place on May 17. The issue was approval of the coalition agreement or otherwise. The electorate, augmented since the previous general election by the enfranchisement of the women, was asked to give the newly formed National Government a national mandate.

In the election campaign the two contracting parties co-operated very effectively. In a seat held in the previous Parliament by a Nationalist, it was left for a Nationalist to carry the Coalition banner. A similar arrangement was applied in the constituencies previously represented by members of the South African party. The party organisations loyally carried out the arrangement. Only in a relatively small number of cases was it defied by individuals, who courted expulsion from their own party in each instance, in order to oppose an official Coalitionist candidate from the other party. As a result in more than half the constituencies the official Coalitionists were returned unopposed.

The opposition, in so far as it was put up, came from

South Africa

Labourites, from Mr. Tielman Roos and his friends, from isolationist factions in Natal, and from independents of varying colours, most of them men who were disgruntled by the nomination of the official Coalitionist candidates. In the result 138 supporters of the Government were returned—75 Nationalists, 61 South African party men, and two of the four Labour men who had in the last Parliament supported the Nationalist Government. Of the remaining twelve members of the new House six are independents who are pledged to support the principle of coalition, four may be described as Independent South African party men, and two as Independent Nationalists. The remaining six are the only members of the House who can be regarded as definite opponents of the Government. Two are Labourites, of that section which withdrew from the Nationalist-Labour Pact some years ago, two are followers of Mr. Roos, and two are Natal "Home Rulers." One of the South African party members, it may perhaps here be mentioned, is a woman—the first woman member of a South African legislative body—the wife of Colonel Deney's Reitz, General Smuts's faithful follower in peace as in war, who is Minister of Lands and Irrigation in the new Government.

A word or two needs to be said about the Opposition groups, if only because each of them may perhaps become a focus of the discontent which, in accordance with the common fate of Governments, is likely to gather against the Coalition.

As for Labour, it is probable that it has reached the nadir of its fortunes in South Africa. At the 1920 general election it returned 21 members to a House of Assembly of 134. In 1929 it secured only eight seats out of 148. In the present Parliament there are only four Labour members out of 150; of these, two won their seats by virtue of Nationalist and South African party support—there are, in fact, only two independent Labour members of Parliament in South Africa. It is a striking indication of the

The Coalition

consequences for Labour of entering into a political pact as the junior partner. Further than it has already gone the attrition of Labour can hardly be expected to go, but it may be doubted whether its re-establishment as an effective political force will be other than a slow process. Doubtless in the industrial centres it will draw to itself some of those who find cause for grievance in the Government's policy; but it will never go very far until it proves capable of attracting the Afrikaans-speaking workers, whose numbers have been growing steadily, while those of the English-speaking workers have declined. So far Labour has failed in this objective. It may be that, as one of the results of coalition, the hitherto predominantly Nationalist Afrikaans-speaking worker will cease to be race-conscious and become class-conscious.

The two followers of Mr. Roos who were successful at the polls are the sole survivors of a band of some twenty "Roosite" candidates, including Mr. Roos himself. The activity of Mr. Roos undoubtedly provided the occasion, if not the cause, of coalition. His dramatic intervention in politics at the end of last year seemed to have secured for him an all but impregnable position in the people's favour. But in standing out for the premiership he over-called his hand. The coalition for which he had pressed came into being, but in a manner which showed that he had erred in thinking that he was himself indispensable for its formation. In the upshot he allowed himself to be driven into the position of fighting the official Coalitionist candidates at the polls, and could give no better ground for doing so than that the coalition was not sufficiently complete because the parties had not been amalgamated. He himself stood against one of the Ministers, Mr. Grobler, at Rustenburg, and was defeated. As a result he has dropped out of political activity to resume practice at the bar, and the name of the Judge, whose resignation from the highest Court in the land and subsequent political activities set all South Africa talking a few months ago, is

South Africa

now only seen in the press in connection with his appearances to defend accused persons in Magistrates' Courts. Yet it may safely be assumed that Mr. Roos regards himself as only "baffled to fight better," that he is waiting for the opportunity which he hopes the Coalition Government's mistakes will provide for another incursion into politics. If fortune favours him in the matter of health—for long an uncertain factor in his case—he may yet be destined to be once again a power in South African politics; and perhaps the natural course for him to pursue is to try to lead the Afrikaans-speaking worker in the towns, possibly also the poor white in the countryside, into an alliance with Labour.

Something must be added about the significance of the other Opposition *duo* in the new House—the two Natal "Home Rulers." It is unnecessary to recall what has already been stated from time to time in these columns* about Natal's reaction to the period of Nationalist rule. Its consciousness of its distinctiveness as the most British part of the Union has been effectively stimulated, and has revealed itself in many different manifestations—separation, federation, home rule, a distinctive Natal party, are all cries that have been raised. To some extent the Coalition succeeded in establishing itself in Natal's good graces by reversing the Nationalist policy of abolishing the provincial system, and by declaring for the maintenance of the Provincial Councils and a possible extension of their powers. Federalism, as such, it has, however, rejected, and so provided a basis for the survival of an agitation among a section of the community to whom the continuance of Nationalist Ministers in office is by no means palatable. It was not surprising, therefore, that two anti-coalitionist Home Rulers were returned at the elections. They are not, however, men of any great political experience or aptitude—indeed, the weakness of the isolationists in Natal lies in their apparent incapacity to throw up leaders

* See THE ROUND TABLE, No. 87, June, 1932, p. 656, and No. 88, September, 1932, p. 895.

The Tax on the Gold Premium

of any weight. But for that, the establishment of a Natal party, speaking for practically the whole of the province, would remain as a somewhat unpleasant possibility. As it is, it will probably not be realised. Certainly the return of economic prosperity to Natal would do much to terminate the political *malaise* of the last few years.

II. THE TAX ON THE GOLD PREMIUM

PARLIAMENT assembled within a week of the final election results becoming known—an unusually brief interval for a country of great distances like South Africa. The opening was expedited in view of the necessity for the early departure of the delegation to the World Economic Conference, at which South Africa has been represented by General Smuts and two of his Nationalist colleagues. General Smuts himself travelled to London by air, emphasising as he went the links of common interest between the Union and the African countries to the north. His colleagues, Mr. Havenga and Mr. Pirow, stayed a few days longer to deliver the general and railway budget statements respectively, and then travelled by sea. In the absence of three of its most important members, the Government decided to confine the session virtually to the passing of the budgets and the necessary legislation arising therefrom, and this work it was able to complete in the space of four weeks.

Mr. Havenga's budget statement was easily the most important of its kind ever made in the Union Parliament. The new Government on assuming office found two problems awaiting it, different in kind, but in a sense complementary to one another. First, there was the almost desperate position of the farmers. On that it is unnecessary to enlarge, since in essence the plight of the farmer in South Africa is the same as that of the primary producer in other lands. But, secondly, there was the question

South Africa

of the disposal of the gold premium, estimated at a figure not far short of £20 million, accruing to the gold producers as a result of South Africa's abandonment of the gold standard. It was recognised that the State had an interest in the premium and that is why the two problems have been described as complementary, since it seemed inevitable that part of the premium should be applied to the relief of agriculture. The matter was not, however, so simple as that would suggest, for a due balance had to be maintained between the interest of the State and other legitimate interests in the disposal of the premium. These interests were all to some extent connected with the prospect, which the increased price of gold held out, of a considerable expansion of the industry and a substantial extension of its life, through the working of ore of a lower grade than it was profitable to mine while gold remained at the standard price. Thus there was the interest of the workers, represented not so much by a possible increase in wages as by an extension of the sphere of employment; the interest of the shareholders, whose increased dividends would help to provide a fund from which money for new developments might be drawn; and the interests of the nation as a whole, for whose future prosperity it was of the first importance that the opportunity of prolonging the industry's life should not be lost as a result of excessive taxation.

In framing his budget Mr. Havenga found that he had to start with an accumulated deficit of £1,962,000 from the lean years of the past, a deficit which he suggested, not very convincingly, would have been smaller if South Africa had remained on the gold standard. He had also to start with an unavoidable increase in expenditure. Last year South Africa had the benefit of the exchanges in respect of its oversea interest payments. Its substitution of a sterling for a gold basis for its currency has deprived it of this advantage, the amount involved being £1,600,000. But apart from this, although in general the expenditure estimates had been framed on a conservative basis, there were certain

The Tax on the Gold Premium

globular additional items. The "cuts" imposed last year on the public service were restored, and the railway administration was put in a position which enabled it to take similar action, by the Treasury agreement to take over the responsibility for certain interest charges which had long been in dispute. For the rest, substantial assistance was provided for farmers. For one thing, the export subsidies, which were originally provided as a compensation for the burden carried by the farmers in consequence of South Africa's maintenance of the gold standard, were to be kept on; for another, provision was made for a subsidy of $1\frac{1}{2}$ per cent. towards the interest payable by *bona fide* farmers on mortgage bonds on their farms, which, together with a confiscatory tax claiming for the Exchequer any interest over 5 per cent. collected on such bonds, was intended to bring the rate of interest payable by the farmer himself down to $3\frac{1}{2}$ per cent. Under these and certain other minor heads, an amount of £4,855,000 was provided on the estimates for the vote, Assistance to Farmers. The result was that, as against an expenditure of £27,300,000 in 1932-3, the expenditure for 1933-4 was estimated at £34,016,000. On the other side it was anticipated that the revenue would increase from £27,253,000 to £28,292,000, an increase in which the chief factor was the anticipated additional yield of normal mining taxation resulting from the increased price of gold. Mr. Havenga, therefore, estimated that the deficit of £1,962,000, with which the year commenced, would be increased by an amount of £5,724,000, giving a total of £7,686,000. This he proposed to meet to the extent of £1,900,000, by transferring from loan account to the Consolidated Revenue Fund the increased amount payable to the State as its share of the profits by the leased mines in consequence of the enhanced price of gold, and to the extent of £6,000,000 by an excess profits duty on the gold mines in general. This left him with a surplus of £214,000, which he proposed to apply to certain minor tax adjustments.

South Africa

It is perhaps necessary to state clearly what exactly is the anticipated effect of Mr. Havenga's proposals for the taxation of the gold premium. On the normal basis of taxation the State's share of the increased profits resulting from the enhanced price of gold is set down at £3,700,000, roughly one-half of which would, if the law had not been altered, have gone into loan account, but which, in the way proposed by the budget, has in fact been transferred to the Consolidated Revenue Fund. In addition to this an excess profits duty, estimated to yield £6,000,000, has been imposed—a total therefore of £9,700,000. This is roughly 50 per cent. of the amount represented by the increased price of gold, which is estimated at £19,700,000. It must not, however, be assumed that this latter figure correctly reflects the increase in the profits of the mines. Encouraged by the Government, the mines have been working lower grade ore, which means that they must mill a larger tonnage and proportionately increase costs, in order to produce the same amount of gold. It is therefore improbable that the actual profits of the mines will exceed £15,500,000, of which it will be seen that considerably more than one-half will accrue to the State.

Mr. Havenga's budget undoubtedly did not lack the virtue of courage—it may be doubted whether any but a National Government would have ventured to present it. It was indeed severely attacked—not so much, however, at its most vulnerable point (the confiscatory proposals with regard to farm mortgage interest, and the virtual interference with the sanctity of contract) as on account of its gold mining taxation proposals. Some of the strongest criticism in the House came from one or two of its pledged supporters, representing Witwatersrand constituencies, but at no stage did more than six members vote against any of the proposals. Outside the House, however, a storm of almost unexampled severity blew up on the Witwatersrand. The budget came at a time when a stock exchange boom was at its height, and it led to a slump

The Amalgamation Movement

which caused considerable losses to individuals. The mining industry, which in this matter was perhaps not as wisely led as it might have been, sought to adopt bludgeoning tactics. Mr. Patrick Duncan, himself a Witwatersrand member, who had been left with the thankless task of defending Mr. Havenga's budget, was bitterly assailed. He stood his ground with great determination and skill, and although he made certain important concessions, chiefly in the form of assurances with regard to the maximum immediate and future yield of the taxation, he maintained the essential features of the budget. And, though for a time after the session ended the storm continued to rage fiercely, it would, at the moment of writing, appear to be subsiding, under the influence of a favourable trend of the market, as rapidly as it blew up—if not *pulveris exigui iactu compressa*, at least in a manner to some extent reminiscent thereof.

As for the future of the gold mining industry, which is of first-rate importance for South Africa as a whole, the essential fact remains that, despite the admittedly heavy government taxation, enough of the premium has been left to the industry to ensure at least the doubling of the tonnage that can profitably be worked—subject, of course, to the assumption that gold remains at 120s. an ounce.

III. THE AMALGAMATION MOVEMENT

THE controversy over the gold mining taxation undoubtedly served to consolidate the Government, which has worked together admirably as a team, and shows no sign of fissure as a result of past controversy or divergence in the elements of which it is composed. It already seems unthinkable that the two parties now co-operating should break away and confront one another as they did before. That does not, however, exclude the possibility of important political changes. For one thing, there is

South Africa

already on foot, and rapidly gathering force, a movement to amalgamate the two parties ; at the moment its strength is rather in the countryside than in the towns. For another, there are elements of disruption in both camps, which would almost certainly be strengthened by premature amalgamation. In such an event the South African party's position in Natal would certainly be weakened, the Nationalists would be faced by the defection of most of their Cape supporters led by the redoubtable Dr. Malan, who has already given abundant evidence that he is waiting his chance to withdraw his support from the coalition and establish a party in the old Nationalist tradition, appealing to an exclusively Dutch sentiment.

While the position of the Hertzog-Smuts partnership seems to be assured for a considerable period, the forces of opposition will unquestionably grow in strength. Three *foci* of discord have already been mentioned—Labour, Natal, and the ambitions of Mr. Tielman Roos, to which may now be added the intransigence of Dr. Malan. It may even be that one pair of bitter enemies of the past—Dr. Malan and Mr. Roos—may yet be seen working together to oppose another pair of such enemies—General Hertzog and General Smuts. South Africa has seen even stranger things than that happen on its political stage. But after all, the purpose of this article is record, and not prophecy.

South Africa.

July 18, 1933.

NEW ZEALAND

I. FINANCE

THE circumstances under which the Coalition Government on January 20 decided to comply with the demand of the primary producers for an increase in the exchange premium on London, from 10 to 25 per cent., and the keen parliamentary struggle that followed, were discussed in our last article. The results of that momentous decision are still obscure, but the lucid statements of Mr. Forbes, the Prime Minister, and Mr. Coates, who had succeeded Mr. Downie Stewart as Minister of Finance, explaining the grave position of the country, especially of its primary industries, as the justification for the Government's change of front, and outlining its general financial policy, seem to deserve a little more attention now than was then possible. In 1928, said Mr. Forbes on January 27, the value of our exports was £56,200,000, while in 1932 it was £33,600,000. Our imports for the same years were valued at £44,100,000 and £22,800,000 respectively. In four years our exports had fallen by 40 per cent. and our imports by 53 per cent. Following the rule that the national income may be approximately estimated by adding 20 per cent. to the estimate of total production, he set out the position of both in the following table:—

Production and National Income.

		1928-29.	1932-33.
Farm products		£82,100,000	£49,000,000
Other products		41,200,000	32,500,000
		<hr/>	<hr/>
		£123,300,000	£81,500,000
National income		£150,000,000	£98,000,000
		<hr/>	<hr/>
1928-29=100		100	65

The national income had thus fallen by 35 per cent. in these four years. A significant table, based upon the Government Statistician's index of prices in 1914 and in

New Zealand

November 1932, respectively, was also produced by the Minister of Finance.

Export prices	21 per cent. below 1914 figure.
Farm expenditure (1931) ..	49 per cent. above 1914 ..
Retail prices	29 per cent. above 1914 ..
Wholesale prices ..	21 per cent. above 1914 ..

It was commonly asserted, said Mr. Coates, that "an initial and fundamental choice must be made—the choice between reducing costs and increasing prices," or, as it was less accurately put, between deflation and inflation. The Government proposed to approach the problem from both ends. The raising of the exchange rate, which has already been fully discussed in these pages*, and a further reduction of the burden of fixed charges were the two principal points in the Government's programme. On the second of these the Finance Minister's statement did much to relieve anxiety. The unsettling consequences of the "unprecedented interference with the terms of contract," which the National Expenditure Adjustment Act of 1932 effected by its general reduction of interest and rent by 20 per cent., had been magnified by the Prime Minister's vague reference on the eve of the Christmas adjournment to the need for a further reduction of interest charges. But this fear was removed when his colleague stated that the Government recognised—it may be rather late in the day—that "if industry is to be carried on the confidence of investors must be retained," and that in view of the extensive powers already provided for reviewing individual cases it was not proposed to carry the policy of statutory reduction any further. Encouraged by the example of Great Britain and Australia, the Government proposed to take steps to reduce the rate of interest on government securities by introducing a conversion scheme which was to be "as far as possible on a voluntary basis." The lowering of bank deposit rates and overdraft rates was also under consideration.

* See THE ROUND TABLE, No. 91, June 1933, p. 705.

Finance

In view of the disturbing effect that the high exchange rate was bound to have upon the budgetary position, Mr. Coates included in his speech what might be called a supplementary financial statement. With only two months of the current year to run there was no need to amend the budget. There was even a prospect of a slight improvement on Mr. Forbes' estimate of a deficit of £879,000 in his budget speech on October 4 last year. But while the raising of the exchange rate would be of immediate benefit to the primary producer, the Finance Minister anticipated that, until business conditions generally had been fully adjusted to the new position, the immediate effect upon the budget would be adverse. It was therefore advisable to allow for a further shrinkage in revenue, especially in customs revenue. In addition to the loss that the customs are sure to suffer from declining imports in the year 1933-34, the Minister pointed out "that the concessions following the Ottawa Conference will be operative for the full year, and that allowance had to be made for them." The reference to the full year shows that he was only speaking of the £250,000 which represents the estimated loss resulting from the small concessions specified in the Ottawa Agreement which are already in operation. The effect of any further loss that may follow the tariff inquiry now proceeding is a question to which even the expert can only guess the answer, since it is ultimately a matter of politics rather than of economics. But it is safe to assume that at least half of the year will have passed before the inquiry is completed and the politicians have said their last word upon it.

On the expenditure side of the account no less than £2,400,000 was debited to the raising of the exchange rate, but the Minister was able to show that one of the items was not really so bad as it looked. The actual expenditure on the 10 per cent. exchange for the year 1932-33, which supplied the basis of comparison, was £350,000, but this sum would have been doubled if a

New Zealand

considerable part of the funds required in London for that year had not been remitted towards the close of the previous year under the exchange pool arrangement. Owing to this accident the comparison which the Minister was compelled to make appeared to load the change of policy with £350,000 more than its fair share. On the other hand it was afterwards pointed out by Mr. Downie Stewart that, as the 10 per cent. exchange was already costing £800,000, and deficiencies of income tax and other items accounted for £500,000, the aggregate burden of the increased rate on the budget, when the Minister's extra £3,300,000 was added, would be £4,600,000.

The two other items in the exchange increases were explained by the Minister of Finance as follows :—

The increase in the exchange rate adds a further £1,050,000 to the cost, in New Zealand currency, of remitting payments due on loans contracted in the United Kingdom. In addition, the Treasury estimates allow for a contraction of imports to such an extent that the exchange surplus in London will total £4,000,000, and that the extra exchange costs under the indemnity arrangement will amount to £1,000,000 (that is, 25 per cent. of the exchange surplus).

It was, however, admitted that the absence of any New Zealand precedent and the general uncertainty in external conditions would make it "hazardous to attempt any precise estimate," the £1,000,000 being merely taken as a "working figure" for the purpose of the Minister's calculations.

The Finance Minister's survey showed a prospective deficit for the year 1933-34 of £9,850,000, which was made up as follows :—

Equivalent of current year's shortage	..	..	£	£
<i>Revenue decreases :</i>				700,000
Customs .. .. .	..	..	1,400,000	
Income Tax .. .. .	..	..	750,000	
Stamp and Death Duties .. .. .	..	..	250,000	
Interest receipts .. .. .	..	..	220,000	
Post and Telegraph profits .. .. .	..	..	470,000	
Other items .. .. .	..	..	260,000	
Reserves .. .. .	..	..	2,500,000	
			<hr/>	5,850,000

Finance

<i>Expenditure increases :</i>	£	£
Exchange :		
Extra cost, external debt charges :		
(a) On account of full year at 110	350,000	
(b) By exchange increase to 125	1,050,000	
Cost of exchange on surplus bank funds,		
London	1,000,000	
	<hr/>	2,400,000
Other items :		
Additional interest and other debt charges ..	350,000	
Motor taxation payable to Main Highways Fund	500,000	
Pensions	50,000	
	<hr/>	900,000
		<hr/>
		£9,850,000

Turning to the problem of how to bridge this gap, Mr. Coates held out no hope of any considerable economies—those recommended by the National Expenditure Commission and not yet carried out amounted to £1,150,000. He hoped to realise £2,000,000 by another raid upon the reserves, to find ways and means up to £2,400,000 (which has since been done by means of a sales tax), and to save about £400,000 in interest by the conversion scheme mentioned above, which has also been successfully carried out with considerably better results than was anticipated. In this way he expected to bring the deficit down to about £4,500,000.

On April 29 the Minister of Finance was able to spring a pleasant surprise upon the country. He announced that the year had closed on March 31 with a balanced budget. The details were not available till the publication of the audited accounts on June 12, but it already appeared that expenditure totalled £22,528,379, and revenue £22,569,521, leaving a surplus of £40,142.

The budget provided (said Mr. Coates) for reducing the huge prospective deficit to not more than £1,010,000, but as the year progressed it became evident that the result for the year would be much nearer a balance than this. The final results disclose a surplus of some £40,000, which has been made possible partly by reason of revenue buoyancy totalling £938,000 and partly by way of net economies totalling £112,000.

New Zealand

In view of the grave outlook at the beginning of the year the Minister was right in supposing that the result would afford general satisfaction, for in these hard times even a nominal surplus is something to be thankful for.

Under all the main headings of expenditure but one, substantial economies, totalling £483,000, had been effected, but the one exception, "other services," provided a heavy set-off of £370,500 in excess of the appropriation, and a matter which had excited more interest than all the other items put together was involved. This excess was due to the additional exchange on London, purchased by the Government during the last quarter of the financial year in order to carry out its obligation to the banks under the Banks Indemnity (Exchange) Act 1933. Treasury bills amounting to £2,858,000 had been issued under this Act, and redemptions totalling £478,000 had left £2,380,000 outstanding at the close of the year.

Of this (Mr. Coates, explained) £1,910,000 has been utilised to purchase exchange from the banks under the provisions of the Banks Indemnity (Exchange) Act; the difference of £470,000 between the bills outstanding and the amount purchased represents the exchange cost which has been debited against revenue under "permanent appropriations—other expenditure." Of the sum of £1,910,000 paid to the banks for the purchase of exchange, the major portion was retained in the New Zealand Government Indemnity Exchange Account in London, but, as indicated in the account, £380,000 was transferred to the public account before March 31 and formed part of the floating cash and investment balances of the Consolidated Fund.

The £470,000 which the new policy has cost during two months of the export season indicates that the Minister's estimate of £1,000,000 for the full year is likely to be far exceeded.

II. LOAN CONVERSION

NEXT in importance to the raising of the exchange rates in the Government's policy of bridging the gap between costs and prices, though destined to meet with a

Loan Conversion

very different reception, were the proposals submitted to the House of Representatives by the Minister of Finance when he moved the second reading of the New Zealand Debt Conversion Bill on February 28. He described interest as "probably (directly or indirectly) the major item in the fixed charges of all business," and though the Bill itself dealt only with the Dominion's internal debt, he took the opportunity of explaining the steps that the Government was taking with the object of bringing about a general reduction of interest rates. Recognising that New Zealand, having, like Australia, no short-term loan market in the ordinary sense of the term, was dependent for this kind of borrowing on overdraft rates and deposit rates, the Government had been in negotiation with the trading banks, with the result that their overdraft rate for best accounts was to be reduced from 6 per cent. to 5 per cent. from May 1. Stock and station agents had undertaken to reduce their rates by 1 per cent. at the same time. The banks had already reduced their deposit rates by $\frac{1}{2}$ per cent. in December, and the Post Office Savings Bank was to reduce its rate from $3\frac{1}{2}$ to 3 per cent., but with the right to revert to $3\frac{1}{4}$ per cent. if it was found that money was being transferred to the trading banks.

The Bill provided for the conversion of all government securities held within the Dominion as from April 1, 1933. The gross amount of this debt was approximately £115,320,000, but of this total about £45,800,000 is held by the Post Office on Treasury account. The rates on the securities so held did not in general exceed the minimum of 4 per cent. prescribed by the Bill, but, where necessary, a reduction to that amount was to be made by administrative action. The basis of the conversion proposed for the remaining £69,520,000 was a reduction of 20 per cent. in existing rates, with a minimum of 4 per cent. (apart from tax-free securities) for the rest of the current term, and thereafter an actual return of 4 per cent. only till the end of the new term. In the case of tax-free securities an

New Zealand

adjustment was to be made during the remainder of the present term, but, with that qualification, interest on such securities was also to be reduced to 4 per cent., and made liable to income tax. The net saving from the reductions on both classes of security was estimated by the Finance Minister at £570,000. He was able to announce that offers to convert had been received from a number of large holders, including the trading banks, and he made a strong appeal to others to be prompt in following their lead. Failing notice of dissent within the prescribed period, the Bill provided that assent would be assumed and conversion follow.

Holders, of course, have the right to dissent (said the Minister) but if they do so their interest receipts will be subject to the existing stamp duty and any other special taxation on interest that may be imposed. Holders who convert will be free of the present stamp duty, and the interest from the new securities will not be subjected to any other special taxation.

The Bill received a warm welcome from Parliament, press and people, and it passed through all its stages in both Houses without a division. The only objection raised was on the question of compulsion. When the Australian plan of compulsory conversion was being urged upon the New Zealand Government, Mr. Downie Stewart, who was then Minister of Finance, strongly objected in his Supplementary Financial Statement on October 6, 1931, on the ground that "any compulsory reduction of interest would in reality mean default by the State, and would seriously damage our credit." As a private member he repeated this objection during the second reading debate of the Conversion Bill, contending that though the 20 per cent. cut in interest and rents made last year involved the breaking of private contracts, "we have not yet reached the point where the State can afford to break contracts where its own interests are involved." When the Bill was before the Legislative Council on March 2, Sir Francis Bell appealed to the

Loan Conversion

“tradition that the country's honour is above all things,” and that its obligations are not to be reduced by legislation.

Nobody denies (said Sir Francis) that that was and is the English tradition. But there comes a National Expenditure Adjustment Commission, and there comes a precedent from Australia, and New Zealand is to adopt the Punic faith in lieu of the honourable tradition which it has followed until to-day.

The answer given was that there was no compulsion in the Bill. This was formally correct, but the threat of compulsion was plainly implied in the Minister's statement that the interest receipts of non-converting bondholders would be “subject to the existing stamp duty and *any other special taxation on interest that may be imposed.*” And a few days later the threat was made effective. The Conversion Bill was followed by a Finance Bill, Clause 5 of which imposed a tax of $33\frac{1}{3}$ per cent. on all interest accruing on or after April 1 on existing government securities. The first Bill, which invited the holders of $4\frac{1}{2}$ per cent. securities to take 4 per cent. instead, was an appeal for a voluntary sacrifice. The second, which threatened them with 3 per cent. if they refused this invitation, was clearly just as compulsory as any other penal measure.*

Mr. Coates nevertheless maintains that the success of his scheme was a triumph of patriotism, and he is able to point to the fact that more than a third of the conversion—£24,000,000 out of £69,000,000—had been achieved before the spur of compulsion was applied. If he is right, the country's gratitude to the bondholders should be increased by a recognition of the purity of their motives. But, whether he is right or wrong, the Government and the

* The hardest case was that of the subscribers to a £5,000,000 loan at $5\frac{1}{2}$ per cent. which had matured at the beginning of January, but at the invitation of the Government was being nearly all renewed for 7 years at 5 per cent. The applications closed on February 27, and on the following day this Bill was introduced which cut the interest down again from 5 per cent. to 4. The Finance Minister admitted and regretted the hardship, but was unable to see how it could be avoided.

New Zealand

Legislature are entitled to no gratitude for the scepticism involved in a compulsory clause which has cast a slur on these motives and at the same time established a precedent which may have disastrous applications. The unanimous approval of the Labour party might well have made the Government suspicious of its own policy. It supplies another illustration of the truth of the remark made in the last New Zealand article* that

in New Zealand, as in Germany, it often seems that some of the institutions of the capitalist system are in process of being destroyed by people who profess and believe themselves to be its most ardent supporters.

But it cannot be pretended that the country has been seriously perturbed by the violation of sound principle in this part of the scheme. Instead of falling, the prices of our securities have actually risen during the last six months. Public opinion has indeed been impressed by the success of the Government in what has been called "the most momentous operation in the field of State finance ever attempted in this country"† by the reduction of the Dominion's interest bill by £570,000, by the lowering of the bank rates, and by the hopes, which have been encouraged, of a general downward revision of interest. By the courage and the enterprise which Mr. Coates has displayed in the handling of this matter the Government has certainly recovered a good deal of the credit that it lost during the heated debates and narrow divisions on the exchange issue.

III. OTTAWA OBLIGATIONS

WHEN Mr. Coates, who was then Minister of Public Works and had been New Zealand's chief delegate at Ottawa, submitted the Ottawa Agreement to the House

* See THE ROUND TABLE, No. 91, June 1933, p. 705.

† *Otago Daily Times*, March 24.

Ottawa Obligations

of Representatives on October 13, he called special attention to the obligation of the Government under Article 8 "to institute an inquiry into the existing protective duties, and, where necessary, to reduce them as speedily as possible to such a level as will place the United Kingdom producer in the position of a domestic competitor." The faithful discharge of this obligation, he declared, was as much in the interest of the Dominion as it was an obligation of honour, since a downward revision of the tariff was "a necessary step towards lower costs of production and lower costs of living." "If we are to export," he added, "we must import—we cannot have one-way trade." The Government had, indeed, been accused of laxity in its interpretation of the words, "as speedily as possible" on the ground that it allowed nearly seven months to elapse between the ratification of the Ottawa Agreement and the appointment of the Commission which is to conduct the inquiry. But the charge is without foundation, for the postponement was made in order to meet the convenience of the representatives of British industry who are to be heard at the inquiry. It was made, moreover, at the express request of the British Government.

Though some Dominion manufacturers naturally regard the inquiry with apprehension, no hostile criticism worth mentioning has been directed either at the personnel of the Commission or its order of reference, which were announced on May 11. The choice of Dr. George Craig, C.M.G., who for ten years has been Comptroller of Customs, for the chairmanship might seem to be an ex-officio appointment, but nobody suggests that, as regards ability and experience combined, any better choice could have been made. The other three members are Professor B. E. Murphy, of Victoria University College Wellington, who is New Zealand's senior Professor of Economics, and neither the least able nor the most academic of the number; Mr. G. A. Pascoe, of Anderson's, Ltd., one of the largest firms of iron and steel founders and importers in the

New Zealand

country, and Mr. J. B. Gow, intimately associated with the dairying industry and local government for many years. Neither in representative character nor in ability could these appointments have been easily bettered. It is, of course, obvious that while the chairman and Professor Murphy represent disinterested and expert knowledge, the other two are representative of the two principal interests concerned, i.e., the secondary and primary industries. As these interests are, however, mutually opposed, there is no fear of their dominating the Commission.

The order of reference, on which it would have been more difficult to go wrong, is also unexceptionable. It reads as follows :—

To inquire into the customs tariff of New Zealand and to recommend for consideration by the Government any alterations therein, having regard to existing trade agreements to which New Zealand is a party, and particularly to the agreement concluded at Ottawa in 1932 between His Majesty's Governments in the United Kingdom and in New Zealand; to the financial, economic and industrial conditions in the Dominion; to the reasonable requirements of local industries which are being conducted in an efficient manner, and are economically justifiable; and to all other relevant considerations.

While the first of these terms of reference is concerned with the whole subject matter of the Government's undertaking under the Ottawa Agreement, the others open the door for the general overhaul to which Mr. Coates referred.

It is only with our protective duties that the British manufacturer is concerned, but, to a country which is dependent upon the tariff for more than half its income from taxation, the revenue aspect of the problem is also of capital importance. Six years have passed since any inquiry of the kind took place, and on the last occasion there was a general increase in the preference to British goods from the 15 per cent. fixed in 1921 to 20 per cent. There was a further increase in 1930, but it was accompanied by a general raising of duties which to some extent neutralised it. These duties were, moreover, raised again

Ottawa Obligations

in 1931. Our tariff quarrel with Canada in 1930, and the stand made by the British delegates at Ottawa, seem at last to have convinced our people that there is such a thing as "prohibitory preference," and that a British manufacturer whose goods are excluded by a tariff barrier has no reason to feel overflowing gratitude for the greater height of the barrier which excludes the goods of his foreign rival. Too often New Zealand's preference for Empire goods has meant little more than a gesture of goodwill, which pleased the people by its patriotism, the local manufacturer by increasing his protection and the Treasury by the additions it brought to its revenue.

One point which distinguishes the present inquiry from normal tariff inquiries in this country is the publicity of the proceedings; and the value of this feature was increased by the announcement of the Commission at its opening meeting on June 7 that interested parties might be represented by counsel or other agents with the right to examine and cross-examine witnesses. A ruling given at the same time, that "the relation of the tariff to the rates of exchange prevailing in New Zealand and in other countries" was covered by the order of reference settled another point of great public interest. Both before and after the increase in the exchange rate it has been strongly criticised on the ground of inconsistency with the spirit, and even with the letter, of the Ottawa Agreement. So far as the letter is concerned, the critics of the Government doubtless went too far. The Dominion, scanning the text to find any mention of the exchange rate, might at the end be able to say with Shylock, "I cannot find it; 'tis not in the bond." But the spirit of a Shylock seems to provide a poor model for the interpretation of a "gentlemen's agreement," under which, as in all other relations between the parties, New Zealand has been treated with great generosity, and into which both parties entered with something higher in view than a merely commercial object. An ex-Minister declared that he was not greatly

New Zealand

impressed by this argument because Australia, which, even before Ottawa, had handicapped British trade in a similar fashion, had nevertheless received the same benefit as New Zealand. But surely the man who receives a benefit from one whom he has previously poked in the eye with a burnt stick is in a less invidious moral position than one who after receiving the benefit selects this method of showing his gratitude. It is, of course, possible that he may mean well, but he obviously renders himself liable to be misunderstood.

But if New Zealand's difficulties may be held to constitute a "bitter constraint and sad occasion dear," over-riding her moral obligations under the Ottawa Agreement, she must be congratulated on the mathematical exactness with which she has calculated her reprisal. "Freely ye have received, freely give." Having received a tariff preference of 15 per cent. on a large part of her exports, New Zealand retaliates with a penalty of 15 per cent. on British goods* by raising the rate of exchange on London from 10 to 25 per cent. The penalty is, moreover, for the present at any rate, a more serious matter than an equivalent interference with the tariff, since it applies to imports of all kinds, whether dutiable or not. The contention of the Government is that in thus taking away with one hand far more than all that it has given or is likely to give with the other, it has done Great Britain no injustice, because the two transactions are distinct and have no relation to one another. What the relations, both moral and economical, between these unrelated matters may be, and how they should be treated, are two of the most interesting of the questions that the Commission has to decide.

* The 15 per cent., of course, affects imported goods from foreign countries as well.

The Restriction Proposals

IV. THE RESTRICTION PROPOSALS

WHILE the recent fall in the price of butter has seriously aggravated the troubles of our dairy farmers, and the hopes based upon the high exchange are still awaiting fulfilment, their anxieties have been further increased by the restriction proposal of the British Government. It was the subject of an urgent question in the House of Representatives on February 21. Australia and New Zealand were asked to reduce their exports of butter to Great Britain by 6 per cent. for twelve months from May 1 on the understanding that Great Britain would reduce her imports of foreign butter by 12 per cent. during the same period. As the price of New Zealand butter in London on February 1, 1932, was 101s. a cwt., and a year later 78s. a cwt., with the prospect of a still further fall, it is clear that the solvency of both the home farmer and the New Zealand farmer is threatened. But while on that account press opinion, which represents for the most part urban opinion, regards the acceptance of the British proposal as inevitable, it has encountered strong opposition from the representatives of the dairy industry.

The attack was opened by the Dairy Produce Board on February 17 with a resolution which declared that the restriction of dairy produce was impossible in New Zealand, and that the only sound policy was to propose free trade between Great Britain and the Dominion. On April 1 Mr. Dynes Fulton, its acting chairman, made a public statement explaining the policy of the Board. If restriction was enforced, he said, "the whole dairy industry would be hamstrung." The annual increase of not less than 10 per cent. which had been maintained for many years would be checked and further improvement would be impossible. The effect of the British proposal

New Zealand

during the next two years was summarised by him as follows :—

	Amount in tons.		Price.	
	1932-33	1933-34	Per cwt.	Total.
Export, if unrestricted ..	120,000	132,000	70s.	£9,240,000
Quota, with 6 per cent. restriction	112,800	112,800	84s.	£9,475,000
Surplus to dispose of, say		20,000		

How was New Zealand to absorb or dispose of this surplus of 20,000 tons? Mr. Fulton had no difficulty in showing that it would be impossible. With a local consumption of 26,000 tons—about 40 lb. a head—New Zealand already leads the world, and even if the present price of 9d. a pound were reduced to 6d., no considerable increase in the consumption could be expected. Externally there was no hope, as Canada and the United States had shut their doors against us by their tariffs, and our trade with the Pacific Islands and the East was trifling. Making the most liberal allowance for any set-off, domestic or foreign, Mr. Fulton estimated that the British proposal would leave our dairy farmers with 13,750 tons of unsaleable butter on their hands. He also suggested that the press messages indicating that British importers were unanimously in favour of the proposal were not in accordance with the facts.

The farmers' fear of the proposed restriction was strongly expressed at a meeting of the Dominion executive of the New Zealand Farmers' Union on April 19. The president, Mr. W. J. Polson, M.P., fully endorsed Mr. Fulton's statement. He admitted that it might be necessary to agree to some form of quota for a few months, but it should only be a temporary expedient. They had agreed that their representative at Ottawa should say that a quota was necessary for the foreigner, but they were not to consent to a quota on any Dominion product. A resolution was

The Restriction Proposals

unanimously carried condemning any support of "the fatal principle of quotas" and urging

that all rural interests should adopt a common platform standing on the Agreement and demanding that it be interpreted in the spirit in which it was intended, namely, offering Britain such tariff adjustments as will secure reciprocal advantages from a continuation of it.

On May 6 by far the ablest, most comprehensive and best balanced contribution to the problem that has yet appeared was made by the Minister of Finance in a 30-page pamphlet entitled "A Butter Quota or a Free Market?" Himself, like the Prime Minister, a farmer, Mr. Coates earnestly appealed to his fellow-farmers to take the long view, to recognise that this was no passing emergency for the dairy industry, and to realise that the quantitative regulation of imports was a policy to which not only the present National Government, but all the British parties appeared to be committed. He called particular attention to a statement by Major Elliot, the Minister of Agriculture, in a speech at Manchester on February 10, that the quota policy was "not a mere expedient to meet a crisis, but had come to stay."

After a lucid survey of the whole position Mr. Coates summed up the case for and against accepting the British proposal. The arguments against accepting were as follows:—

- (1) The quota will involve a reduction of exports to Great Britain; hence, unless other markets are found, restriction of production is threatened.
- (2) It runs counter to the whole accepted policy of New Zealand, which rests on expansion of production from the land.
- (3) The quota would be difficult to apply: it would involve more control and interference with private enterprise.
- (4) Control of exports would lead to control and forward planning in production, and this would raise novel and difficult problems.

The arguments for acceptance were the following:—

- (1) The alternative is ruin. Not merely a price decline, but a

New Zealand

débâcle is the immediate danger. This will enforce less production, so that the above point is an unreal one; we are threatened with less production, quota or no quota.

(2) The raising of price levels, especially for farm produce, is agreed by all to be urgently required; and regulation of supplies is a necessary step to this.

(3) The proposal is generally in line with the efforts that are being made the world over to bring order out of chaos. This spells the doom of *laissez-faire*,* and an increasing measure of control and regulation. These efforts will not cease even though our producers hark back to the days of unregulated competition. . . .

(4) To-day there is a great contrast between the lack of organised control of production in agriculture, and the increasing control in other industries, in commerce and in banking. The contrast can itself be regarded as a substantial reason for the unbalance in the world. If the balance is to be restored, this cannot be brought about by destroying the co-operation in industry and throughout the whole world of commerce, but only by bringing more organisation into agriculture. The quota is in keeping with that requirement.

(5) Although to-day we are free to reject quantitative regulation, this freedom will expire in little over two years' time. It is a short-sighted policy to bang the door against intelligent and reasonable organisation. We may decide to "meet the market," and thereby decline to meet Great Britain. Co-operation is wiser than conflict.

(6) Finally, whether the quota will bring more gain than loss is a question that must depend for its answer on the actual details as they are worked out; it cannot be answered in the abstract. . . . The correct attitude is to get down to details and examine the possibilities of the quota, accepting the fact that conditions have changed, and that new conditions call for new ways of thinking.

In a foreword to his pamphlet Mr. Coates describes his opinions as "set down in a purely tentative and provisional way," and says that, if he has dwelt more fully on the advantages of accepting the restrictions than on the objections, it is because the advantages have been inadequately presented. The force with which he has stated this side of the case has made a great impression; but though his arguments have not been met, they have not changed the tactics of the advocates of a free market. The spokesmen of the Farmers'

* Mr. Coates reprinted, in an appendix, the article entitled "*Laissez-faire Doomed*" from *The Times* of December 8, 1932.

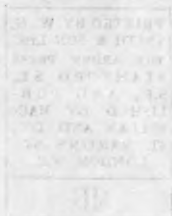
The Restriction Proposals

Union have no alternative policy to that of blank negation, except further tariff changes in favour of Great Britain which are too vague for practical politics. They could not, moreover, provide an adequate remedy.

Meanwhile, as Mr. Forbes informed the World Economic Conference on June 15, the producers of New Zealand disapprove of the limitation of either exports or production. On the contrary, they hope that a removal of barriers and a restoration of purchasing power will enable even larger supplies to be absorbed. And without their consent the British proposal, which was to have operated from May 1, and also required the consent of Australia, has by this time presumably lapsed.

New Zealand.

June 27, 1933.



The Restriction Proposals

There have no alternative policy to that of blank restriction except further tariff changes in favour of certain goods which are regarded as practical policy. They could not, however, provide an adequate remedy.

According to Mr. Forbes in the *World Economics* Commission (June 12), the producers of New Zealand in favour of the limitation of export of production. On the contrary they hope that a removal of barriers and a restriction of purchasing power will enable even larger supplies to be absorbed. And without their consent the British proposal, which was to have operated from July 1, and also against the consent of Australia, has by this time

PRINTED BY W. H.
SMITH & SON LTD.,
THE ARDEN PRESS
STAMFORD ST.,
S.E., AND PUB-
LISHED BY MAC-
MILLAN AND CO.,
ST. MARTIN'S ST.,
LONDON, W.C.



C51

0E2E 5
1328
2E32
3235
4538
5E35
6328 7528

0E2E 5
1328
2E32
3235
4538
5E35
6328 7528